MILITARY MODULE

STUDENT TEXT

88/990/student/milita

Volunteer Assistor's Guide

For use in IRS volunteer programs
VITA Volunteer Income Tax Assistance
TCE Tax Counseling for the Elderly

IRS Salutes Volunteers for 21 Years of Making Taxes Less Taxing

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Table of Contents

Introduction / ii

Lesson

1. Gross Income / 1
2. Aliens / 8
3. Dependency Exemptions / 13
4. Earned Income Credit / 16
5. Sale of Home / 18
6. Moving Expenses / 23
7. Travel Expenses / 32
8. Miscellaneous Itemized Deductions / 37
9. Filing Returns / 41

Summary Problems / 45

Answers to Summary Problems / 54

Note: For information concerning reservists called to active duty to support Operation Desert Shield, refer to Publication 3, *Tax Information for Military Personnel.*

Introduction

The *Military Supplement* to the *Volunteer Assistor's Guide* covers the special tax situations of active members of the U.S. Armed Forces. It does not cover military retirees or veterans' benefits. Since this supplement is used across the country, some issues may be more important in your locale than others.

For federal tax purposes, the U.S. Armed Forces includes commissioned officers and enlisted personnel in all regular and reserve units under control of the Secretaries of the Defense, Army, Navy, and Air Force. The Armed Forces also includes the Coast Guard. It does not include members of the U.S. Merchant Marine.

Generally, tax laws apply to all citizens and residents of the United States. However, some types of pay, exclusions, and other provisions of law are of special interest to members of the Armed Forces. Some lessons in this book apply material from the *Volunteer Assistor's Guide* to military situations. Other lessons cover topics that are not mentioned in the *Volunteer Assistor's Guide* (such as alien issues and moving and travel expenses).

Read each lesson of this supplement carefully. When you are ready, check your understanding by working the exercises without referring to the answers. Finally check your answers in the *Answers to Exercises* at the end of the lesson. If your answers are not correct, reread the related sections.

In addition to the material used with the regular VITA course, such as Publication 17, *Your Federal Income Tax,* and the Instructions to Forms 1040, 1040A, and 1040EZ, other publications should be used with the military supplement. These other publications are as follows:

Publication 3, *Tax Information for Military Personnel*

Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*

Publication 463, *Travel, Entertainment, and Gift Expenses*

Publication 501, *Exemptions, Standard Deduction, and Filing Information*

Publication 508, *Educational Expenses*

Publication 519, *U.S. Tax Guide for Aliens*

Publication 521, *Moving Expenses*

Publication 523, *Tax Information on Selling Your Home*

Publication 555, *Federal Tax Information on Community Property*

Publication 596, *Earned Income Credit*

New Items for 1990 are identified by a star (★) in the left margin.

Note: In figuring a deduction for contributions to an IRA, Armed Forces members (including members of the Reserves) who are called to active duty for more than 90 days are considered as active-participants in an employer-maintained retirement plan. See Module II, Lesson 9, in the *Volunteer Assistor's Guide* for the computation.

Lesson 1

Gross Income

Objective

At the end of this lesson, you will be able to determine which items received by members of the Armed Forces to include in gross income.

Introduction

The discussion of gross income in the *Volunteer Assistor's Guide* does not mention certain items that pertain to the military. This lesson discusses whether to include specific items in gross income. You should be aware, however, that certain items related to moving or travel expenses must be accounted for even if they are not considered income. (See lessons 6 and 7.)

Note: For a quick reference, a glossary of military payroll terms located at the end of this chapter defines types of military pay and allowances.

Form W-2

Includible military income will generally be the amount shown in Box 10 of Form W–2. If this amount differs from the last Leave and Earning Statement, advise the person to contact his or her local payroll office for an explanation.

Includible Income

Members of the Armed Forces receive many different types of pay and allowances. Some are includible in gross income while others are excludable from gross income. Includible items are subject to tax and must be reported on the taxpayer's tax return. Excludable items are not subject to tax, but may have to be shown on the tax return. The following items are includible in gross income:

- Basic Pay
- Diving Pay
- Proficiency Pay
- Foreign Duty Pay
- Responsibility Pay
- Continuation Pay
- Enlistment Bonus
- Re-enlistment Bonus
- Separation Pay
- Sea Duty Pay
- Student Loan Repayments
- Hazardous Duty Pay
- Flight Duty Pay
- Medical/Dental Officer Pay
- Aviation Career Incentive Pay
- Veterinary Officer Pay
- Nuclear Qualified Officer Pay
- Personal Money Allowance
- Overseas Extension Bonus
- Accrued Leave Payment
- Scholarships (AFHPSP)

When Armed Forces personnel are traveling or on temporary duty away from their *permanent* post-of-duty, they are paid an amount for living expenses. If this **per diem amount** is more than their deductible travel expenses, the excess is includible in income.

Excludable Income

The following "*qualified military benefits*" do not have to be reported as income on Form 1040, 1040A, or 1040EZ. But for tax years beginning after 1986, the personal use of a vehicle cannot be excluded from gross income as a "qualified military benefit."

- Basic Quarters Allowance (BAQ)
- Variable Housing Allowance
- ROTC Educational and Subsistence Allowances
- Dislocation Allowances
- Family Allowances
- Uniforms (In-Kind or Allowances)
- Interment Allowance
- Combat Pay (Limited)
- Group-term Life Insurance
- Congressional Medal of Honor Pension
- Survivor and Retirement Protection Plan Premiums
- Other Quarters Allowances
- Subsistence Allowances (BAS)
- Moving and Storage
- Trailer Allowances
- Defense Counseling
- Mustering-Out Payments
- Death Allowances
- Evacuation Allowance
- Veteran's Benefits
- Medical Benefits
- Professional Education

Mortgage Interest and Real Estate Taxes

Armed Forces personnel can deduct mortgage interest and real estate taxes on their home even though they pay these expenses with monies they receive as excludable quarters allowance. This rule applies for all open tax years. See Lesson 5, *Itemized Deductions*, in Module III of your regular *Volunteer Assistor's Guide* for more details.

Missing Status

Compensation is excluded from income if it is received for active service as a member of the U.S. Armed Forces or as a civilian federal employee while in a missing status because of the Vietnam conflict. The full exclusion is allowable to commissioned officers as well as to enlisted personnel and civilian employees.

An individual is in a missing status because of the Vietnam conflict if immediately before being declared missing, the individual was performing service in Vietnam or in Southeast Asia in direct support of military operations in Vietnam. The status continues as long as the member or employee is officially carried as missing. Missing status does not include any period a member of the Armed Forces is officially absent from a post of duty without authority.

Terrorist Actions

The income tax liability of a member of the Armed Forces or a civilian employee of the United States may be forgiven if the member or civilian dies as a result of injuries sustained overseas from terrorist or military actions. Income tax may be forgiven on the income that person received during the year of death and up to one year before the year in which the injury occurred. For more information, see Publication 559, *Tax Information for Survivors, Executors, and Administrators.*

Income Earned Abroad

The amounts listed in *Includible Income* are reported as income whether earned in the United States or abroad. The law permits certain taxpayers an exclusion up to $70,000 of income earned in foreign countries. This *Foreign Earned Income Exclusion* does **not apply** to wages and salaries paid to employees, both civilian and military of the United States Government. U.S. employees include employees of the Armed Forces post exchanges, officers' and enlisted personnel clubs,

Embassy commissaries, and similar personnel paid from nonappropriated funds. Other foreign income earned by military personnel or their spouses may be eligible for the foreign income exclusion. For more information, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad.*

Community Property

The community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Special rules apply to married persons who file separate returns or who were divorced during the tax year and whose domicile is in a community property state.

For military personnel in community property states, the key is "domicile." **Domicile** describes someone's legal, permanent residence. It is not always where the person presently lives.

Whether an item is subject to community property laws depends on the nature of the payment.

Armed Forces pay. State community property laws apply to active military pay. Generally, the character of the pay as separate or community income is determined by the marital status and domicile of the Armed Forces member and his or her spouse while the member is in active military service.

Armed Forces retired or retainer pay. Generally, retired or retainer payments to a member of the Armed Forces may be subject to community property laws.

For more information, see Publication 555, *Federal Tax Information on Community Property.*

Exercise

Which of the following should be included in gross income?

a. Basic allowance for subsistence
b. Variable housing allowance
c. Lump sum for accrued leave, paid on separation
d. Proficiency pay
e. Uniform allowance
f. Foreign duty pay
g. Re-enlistment bonus
h. Hazardous duty pay

Answer

Summary

You have learned that certain items received by members of the Armed Forces are included in the members' gross income. Certain other items are specifically excluded by law.

Answer to Exercise

c., d., f., g., and h.

GLOSSARY OF MILITARY PAYROLL TERMS

	LEGEND I = Includible	X = Excludable
I	**Accrued Leave Pay**	Lump sum paid for unused accrued leave when term of service expires
I	**Aviation Career Incentive Pay**	Incentive pay for Aviation officers
X	**Basic Quarters Allowance (BAQ)**	Paid to members of the Armed Forces for housing
I	**Basic Pay**	Pay for active duty, training duty, drills, back pay, and attendance at a designated service school
X	**Combat Pay (Excludable up to $500 per month for commissioned officers)**	Pay received under Executive Order placing the Armed Forces in a combat area (see previous discussion under "Missing Status")
	Contiguous States	The 48 continental States and the District of Columbia
I	**Continuation Pay**	Paid to certain personnel who extend their active duty period
X	**Death Allowances**	An amount equal to the *lesser* of $3,000 or 6 months pay to the beneficiary and payments for burial services and travel of dependents to burial site
X	**Defense Counseling**	Provided by the Armed Forces to represent military personnel in their defense before a general or special court-martial or at an investigation
X	**Dislocation Allowance**	Payments to defray extra costs of moving from a permanent duty station (excludable only to the extent of expenses)
I	**Diving Pay**	Pay for diving operations
I	**Enlistment Bonus**	Payable to certain "critical-skilled" enlistees upon entering the Service
X	**Evacuation Allowance**	Paid to offset expenses for dependents who must leave for a place of safety
X	**Family Allowances**	Paid when military families are separated due to overseas assignments, for emergencies and for certain educational expenses for dependents

I	**Flight Duty Pay**	Monthly pay supplement for flight time
I	**Foreign Duty Pay**	Paid to enlisted personnel serving outside the 48 contiguous states and the District of Columbia
X	**Group-term Life Insurance**	Military life insurance
I	**Hazardous Duty Pay**	Pay for hazardous duty
X	**Interment Allowance**	Burial and death allowances
X	**Medal of Honor Pension**	Pension for Congressional Medal of Honor holders
I	**Medical and Dental Officers Pay**	Pay given to certain medical and dental officers
X	**Medical Benefits**	Free medical services
X	**Moving and Storage**	In-kind transportation and storage of household goods
X	**Mustering-Out Payments**	Payments of not more than $25, received if dishonorably discharged
I	**Nuclear Qualified Officers Pay**	Pay to certain nuclear naval officers
X	**Other Quarters Allowances**	Paid because of inadequate quarters or housing and cost of living allowances abroad (whether paid by the U.S. Government or by a foreign government)
I	**Overseas Extension Bonus**	Paid to certain enlisted personnel upon extending their overseas tour
	Per Diem	An amount paid in place of subsistence and mileage when away from permanent duty stations
	Permanent Post of Duty	The duty station where the military personnel is assigned by permanent orders
I	**Personal Money Allowances**	Pay to high-ranking officers for use at their discretion in their positions
X	**Professional Education**	Education costs paid by the U.S. Government for Armed Forces personnel

I	**Proficiency Pay**	Awards to enlisted personnel who show special proficiency in a military skill ,
	Qualified Military Benefit	Any allowances or in-kind benefit paid to Armed Forces personnel or dependents that were excludable from gross income on 9–9–86
I	**Re-enlistment Bonus**	Multiple of monthly basic pay times additional years of re-enlistment service
I	**Responsibility Pay**	Earned in certain pay grades by officers serving in a position of unusual responsibility or critical nature
X	**ROTC Educational and Subsistence Allowances**	Paid for education and subsistence
I	**Scholarships (AFHPSP)**	Scholarships such as the Armed Forces Health Professions Scholarship Program (AFHPSP), and similar programs, granted after August 16, 1986
I	**Sea Duty Pay**	Paid for duty on a vessel under orders of a competent authority operating outside the contiguous United States
I	**Separation Pay**	Lump-sum payment paid upon involuntary discharge or release in certain cases
I	**Student Loan Repayment**	Repayments from programs such as the General Educational Loan Repayment Program
X	**Subsistence Allowance**	Paid for subsistence including basic allowance for subsistence and other subsistence allowances and rations furnished in-kind to enlisted members
X	**Survivor and Retirement Protection Plan Premium**	Premiums taken from the gross pay of retired personnel of the Armed Forces to provide a survivor annuity
X	**Trailer Allowance**	Pay for moving a trailer from a permanent POD
X	**Uniforms (In-Kind or Allowances)**	Uniforms furnished enlisted personnel and allowances paid to officers
X	**Variable Housing**	Paid to personnel living in a high cost of living area

X	**Veterans' Benefits**	Amounts paid by the Department of Veterans Affairs, generally based on a combat-related disability
I	**Veterinary Pay**	Pay given to certain Veterinary Corps Officers

Lesson 2

Aliens

Objectives

At the end of this lesson, you will be able to:

1. Determine whether an alien should file a resident, nonresident, or dual-status tax return.
2. Determine the sources of the income an alien must report on the return.
3. Explain the special election that permits a nonresident alien spouse to be treated as a resident alien and file a joint return.

Introduction

Although filing statuses are discussed in the *Volunteer Assistor's Guide*, you will need more information to answer questions that members of the Armed Forces may ask about aliens. An alien may be in one of three categories: resident, nonresident, or dual-status. It is not always easy to determine the correct category. An alien's status as resident, nonresident, or dual-status taxpayer is, however, crucial in determining what income to report and what form to file. These statuses are discussed in detail in Publication 519, *U.S. Tax Guide for Aliens.*

Nonresident Aliens

A nonresident alien is an individual who is in the United States as a temporary visitor or traveler and who is not a citizen of the United States. A nonresident alien generally must pay tax only on income received from sources in the United States. If the source of income is connected with conducting a trade or business in the United States, the income (after allowable deductions) is taxed at the regular U.S. tax rates. If the source is not connected with conducting a trade or business in the United States, the income is taxed at a 30% rate or at a lower treaty rate, if applicable. For example, Survivor Benefit Plan payments to nonresident alien surviving spouses may be subject to a 30% withholding rate or a lower treaty rate. In either case, the nonresident alien must file a Form 1040NR, *U.S. Nonresident Alien Income Tax Return.*

Resident Aliens

An alien may qualify as a U.S. resident for tax purposes by meeting either the ***green card test*** or the ***substantial presence test*** for the calendar year.

Green card test. An alien is a resident for tax purposes if he or she is a lawful permanent resident of the United States (holder of a "green card") at any time during the calendar year. However, see the following discussion on *Dual-Status Aliens.*

Substantial presence test. If the alien does not meet the "green card" test, the alien may still be a U.S. resident if the substantial presence test for the calendar year is met. To meet this test, the alien must be physically present in the United States for a total of at least 183 days in the current and 2 preceding calendar years.

When you count the number of days of the *substantial presence test*, count:

1. All days the alien was present in the current year,
2. Only one-third of the days present in the preceding year, and
3. Only one-sixth of the days present in the second preceding year.

The total must be at least 183 and 31 days of those days must be in the current year.

EXAMPLE

Zoe Garcia was present in the United States for the last three years. She believes that she can qualify for the *substantial presence test*. Zoe was here from December 1 through December 31 of the current year (1990). She was present in the U.S. all of last year (1989). In 1988, she stayed in the United States from June 1 through December 31. Here's how to figure if Zoe meets the *substantial presence test*:

YEAR	MULTIPLY BY	DAYS PRESENT	TOTAL
1990	1	31	= 31
1989	1/3	365	= 122
1988	1/6	214	= 36
			189

Since Zoe was present in the United States at least 31 days in 1990 *and* at least 183 days during the three years, she meets the test in 1990 to qualify as a resident of the U.S.

Exceptions. For purposes of counting days for the substantial presence test, there are exceptions for regular commuters from Canada or Mexico, persons in transit through the United States, persons who are unable to leave because of becoming ill while in the United States, diplomats, employees of international organizations, teachers, trainees, and students. Also, the substantial presence test does not apply if the alien is present in the United States for less than 183 days during the current year and establishes that he or she has a closer connection to a foreign country than to the United States. Publication 519 has more details on these exceptions.

First-year choice. If the alien does not meet the green card test or the substantial presence test for the first year of arrival in the United States, but meets the substantial presence test for the year immediately following the "arrival" year, there is a special election which the alien may choose. Under this election, the alien would be treated as a resident alien for tax purposes for the part of the year after arrival if three conditions are met. These are:

1. The alien is not otherwise considered a resident alien in the current year;
2. The alien was not a resident alien in the previous year; and,
3. The alien is present in the United States at least 31 consecutive days in the current year, and, during the period between the first day of the 31 consecutive day period and the last day of the year, the alien is present in the United States at least 75 percent of the time.

The taxpayer should be referred to Publication 519 for complete details concerning this special first-year choice. This choice, once made, cannot be revoked without the consent of the Internal Revenue Service.

A resident alien follows the same rules for filing returns as a U.S. citizen. Worldwide income must be reported on a resident alien's tax return. The resident alien uses the same forms as a U.S. citizen.

Dual-Status Aliens

An alien may be both a nonresident and resident alien during the same tax year. The most common dual-status tax years are the years of arrival and departure. Dual-status aliens are taxed on income from all sources for the part of the year they are resident aliens. They are taxed only on income from U.S. sources for the time they are nonresident aliens. They must file Form 1040 and mark it "Dual Status" if they are resident aliens on the last day of the tax year. If they are nonresident aliens at the end of the year, they must file Form 1040NR, marked "Dual Status." In either case, they must attach a separate statement to explain their income and compute tax for the other part of their dual-status year. Dual-status aliens may itemize their allowable deductions or claim zero because

they cannot use the standard deduction.

Exercise 1

Sgt. Zapata is stationed in Korea and is married to a Korean citizen. Sgt. and Mrs. Zapata came to the United States for a 1-month visit and then returned to his post-of-duty in Korea.

a. What is Mrs. Zapata's U.S. alien status?

Answer

b. If the Zapatas moved to the United States in June 1990 and Mrs. Zapata got a "green card," what would Mrs. Zapata's U.S. alien status be for 1990?

Answer

Exercise 2

Karen is a British citizen and a U.S. resident alien ("green card" holder). She married Lt. Trimble, who has a permanent residence in New York. The Trimbles moved to Germany in 1990 for a 2-year tour of duty. They plan to return to New York when this duty ends. Karen earned $10,000 a year working for a German employer while they were stationed in Germany.

a. If Lt. Trimble files a separate return, does Karen have to file a U.S. federal tax return?

Answer

b. If the Trimbles were divorced in 1990 and Karen gave up her "green card" and moved to England, what would her U.S. alien status be for 1990?

Answer

Alien Military Personnel

As a general rule, most alien enlistees in the Armed Forces are resident aliens. This would almost certainly be true of an alien who has lived in the United States before enlistment. In peacetime, the enlistment requirements of the armed services state that no person may enlist unless that person is a citizen or has been lawfully admitted to the United States for permanent residence under the immigration laws. These two factors, voluntary enlistment and admittance for permanent residence, are usually enough to classify an alien enlistee as a resident alien. The United States has treaty agreements with certain nations (such as the Philippines) which allow a very limited number of their citizens to retain their nonresident alien status. Alien enlistees in this category should seek advice from their base legal officer. Other aliens who are present in the United States merely because of military assignment and who have a residence outside the United States are nonresident aliens.

Election to Treat Nonresident Spouse as a Resident

A nonresident alien spouse may choose to be treated as a resident alien if all the following conditions are met.

1. The nonresident alien spouse must be married to a U.S. citizen or resident alien at the end of the tax year.
2. Both spouses must elect to treat the alien spouse as a resident alien.
3. One of the spouses must be or have become a U.S. citizen or resident alien by the last day of the tax year.

How to Make the Election

A husband and wife must sign a statement and attach it to their joint return for the first tax year for which the election applies. The statement should include all the following information.

1. A declaration that one spouse was a nonresident alien and the other spouse was a U.S. citizen or resident on the last day of the year.
2. They are choosing to treat the nonresident alien spouse as a U.S. resident.
3. The name, address, and Social Security number of each spouse.

A note of caution. Once the election is made, the nonresident alien spouse's worldwide income is subject to U.S. tax. If the nonresident spouse has substantial foreign income, there may be no advantage to making this election.

Ending the Election

Once made, this election applies to all later years unless one of the following situations occurs:

1. Revocation—Either spouse may revoke the election for any tax year if both the election and the revocation are made by the due date for filing the tax return for that tax year.
2. Death—The death of either spouse will end the election. This ordinarily begins with the first year following the year in which the spouse died. **Note:** If the spouse who survived is a U.S. citizen or resident and is entitled to the joint return rates as a surviving spouse, the election will not end until the close of the last year for which these joint rates may be used.
3. Legal separation—A legal separation under a decree of divorce or separate maintenance will end the election as of the beginning of the tax year in which the legal separation occurs.
4. Inadequate records—The Internal Revenue Service may end the election for any year that either spouse fails to keep adequate tax records, to provide adequate access to those records, or to supply other information reasonably necessary to determine the correct income tax liability.

If the election is ended for any of these reasons, neither spouse can make an election for any future tax year. For example, divorced individuals, who previously made the election and later remarried, cannot make another election.

Election Not Made

If the election is not made:

1. The nonresident alien cannot file a joint return.
2. The spouse who is a U.S. citizen or resident may claim an exemption for the nonresident alien spouse if the nonresident alien has no gross income for U.S. tax purposes and is not another taxpayer's dependent.
3. The nonresident alien spouse does not have to file a federal income tax return (if he or she had no U.S. source income) and does not have to report any income from sources outside the United States as long as he or she remains a nonresident alien.

Questions of alien status and the special election can be complex. Further information can be found in Publication 519.

Exercise 3

Stephen Rowan is a Navy officer who resides in New York and is on duty in Japan. He has $25,000 in taxable income for the year. His wife, to whom he has been married for 3 years, is a Japanese citizen and has never visited the United States. She earned $4,500 from employment in Japan during the year.

a. Is he required to file a U.S. income tax return?

Answer

b. Is Mrs. Rowan required to file a U.S. income tax return?

Answer

c. Can the Rowans file a joint return?

Answer

Summary

It can be difficult to decide what alien status a person should use and whether the special election for married taxpayers applies. For that reason, a taxpayer should use Publication 519, or refer his or her more difficult questions to the base legal office or the IRS toll-free number.

Answers to Exercises

1. a. Nonresident alien
   b. Dual-status alien

2. a. Yes. She is a resident alien.
   b. Dual-status alien

3. a. Yes
   b. No
   c. Yes. They may make the election, but they should figure their tax both ways first to get the best advantage.

Lesson 3

Dependency Exemptions

Objective

At the end of this lesson, you will be able to apply the support test and citizenship test to certain military situations.

Introduction

The *Volunteer Assistor's Guide* explains the tests that must be met before a person can be claimed as a dependent. In this lesson you will find more information about the support and citizenship tests to help you assist members of the Armed Forces.

A person **cannot** claim a full-time student who has reached the age of 24 by the end of the calendar year *even if* ***all other dependency tests*** are met unless the student's gross income is less than $2,050. If their income is $2,050 or more, the student may claim his or her own exemption. Remember that persons who can be claimed as dependents on another person's return (for example, a child eligible to be claimed on a parent's return) **cannot** claim their personal exemption on their own returns.

Support Test

The following discussion covers types of support provided to, or by, members of the Armed Forces.

Armed Forces Member as a Dependent

A person who has been in the Armed Forces for the entire year may not be claimed as a dependent since the support test will not have been met. A person in the Armed Forces for only part of the year may be claimed as a dependent if all the dependency tests are met. Amounts received by the person from the Armed Forces and used for the person's support must be taken into account.

If a person is appointed to one of the Armed Forces academies and is at the academy all year, he or she generally cannot be a dependent. An appointee at the academy for only part of the year may qualify as a dependent if all the tests are met.

Exercise 1

Kathleen Shannon is 18 and single. Kathleen graduated from high school in June 1990 and entered the U.S. Air Force in September 1990. Kathleen provided $2,400 for her own support, and her parents provided $2,600 for her support that year. Can Kathleen's parents claim a dependency exemption for her for 1990?

Answer

Armed Forces Member Claiming a Dependent

If you apply the support test for a member of the military who has a dependency allotment and the allotment is used to support dependents other than those named, the member may still claim an exemption for them if all the dependency tests are met.

EXAMPLE

Army Pvt. Gary Fairfield authorized a dependency allotment for his widowed mother. She used the amount received to support herself and Gary's 10-year-old sister. Gary provided no other funds for their support. If the allotment provides more than half of their support, Gary may claim exemptions for both his mother and his sister, even though the allotment was authorized for his mother only.

Exercise 2

Cpl. Jim Meigs authorized a dependency allotment for his son, John. The allotment ($100 a month) was in effect for all of 1990. How much should Cpl. Meigs consider that he provided for John in 1990?

Answer

Citizenship Test

For some part of the year the taxpayer's dependent must be a U.S. citizen, resident, or national, or a resident of Canada or Mexico.

Exercise 3

The wife of Col. William Banks is a Greek citizen. Her sister, Athena, who is also a Greek citizen, lived in the Banks' home in Greece for the entire tax year. Col. Banks provided more than 50% of Athena's total support.

a. May Col. Banks claim his sister-in-law as a dependent?

Answer

b. What would be your answer to (a) if Athena was a Canadian citizen and living in the Banks' home in Greece?

Answer

If one parent of a child born in a foreign country is a U.S. citizen, the child may qualify as a U.S. citizen. The U.S. citizen parent must have lived in the United States or its possessions for 5 years before the child's birth. Two of those years must have been after the parent reached age 14. Periods of honorable service in the Armed Forces of the United States are counted as periods of living in the United States. The parent who is a U.S. citizen may claim the child's exemption if the child is a citizen, even though the child lives abroad with the nonresident alien parent. The other dependency tests must, of course, be met.

A U.S. citizen who has legally adopted a child who is not a U.S. citizen or resident may claim the child as a dependent if the other dependency tests are met and if, for the entire tax year:

1. The taxpayer's home is the child's main home, and
2. The child is a member of the taxpayer's household.

Exercise 4

Sgt. John Racine, a U.S. citizen who has been in the U.S. Army for 13 years, is stationed in Germany. His wife is a German citizen and has never lived in the United States. Their 2-year-old son was born in Germany. Sgt. Racine's stepdaughter, a German citizen whom Sgt. Racine has not adopted, also lives with them. The Racines provide total support for the two children. How many dependency exemptions can Sgt. Racine claim on a joint return?

Answer

Summary

In this lesson you have seen how the support and citizenship tests for the dependency exemption apply to some military situations.

Answers to Exercises

1. Yes. The support test is met.

2. $1,200.

3. a. No. His sister-in-law was not a citizen or resident of the United States at any time during the year.
   b. No. Athena would have to reside in Canada to qualify.

4. One. The stepdaughter does not qualify as a U.S. citizen or resident. The son qualifies because his father is a U.S. citizen.

Lesson 4

Earned Income Credit

Objective

At the end of this lesson you will be able to determine eligibility for the earned income credit.

Introduction

The *Volunteer Assistor's Guide* gives the basic requirements of the earned income credit. In this lesson you will see how the earned income credit affects members of the military. In particular, you will consider the main home requirement and the question of temporary absence from home. A credit up to $953 is available to taxpayers who have earned income and adjusted gross income, each less than $20,264. In addition, except for temporary absences, the taxpayers must keep up a home in the United States for a child who lives with them for more than half the year (for the entire year, if the taxpayer is a qualifying widow or widower or if the child is a foster child). To claim the credit, the taxpayers must file as:

1. Married filing jointly,
2. Qualifying widow or widower, or
3. Head of household.

Also, the taxpayer **must** claim the child as a dependent, **except** as follows:

Married Filing Jointly

One of the present spouses is not the child's parent and the child's other parent (the noncustodial parent) claims the child because:

- the custodial parent signed a written statement agreeing not to claim the child, or
- a pre-1985 instrument (such as a separation agreement or divorce decree) gives the dependency exemption to the noncustodial parent and that parent provided at least $600 for the child's support during the year.

Head of Household

- the child is unmarried, or
- the child is married but cannot be claimed as a dependent because the child's other parent (the noncustodial parent) claims the child under one of the provisions described above for married filing jointly.

Earned Income

Earned income includes wages, salaries, tips, disability pensions, and anything else of value, even if not taxable, that the person received for providing services. Examples of nontaxable earned income are quarters allowances and subsistence allowances. Earned income does not include interest, dividends, Social Security payments, welfare benefits, nondisability pensions, veterans' benefits, workers' compensation, or unemployment compensation.

For purposes of the earned income credit, the terms "quarters allowances and subsistence allowances" mean the Basic Allowance for Quarters and the Basic Allowance for Subsistence received by military personnel (with respect to grade and status) and the value of meals and lodging furnished in-kind to military personnel residing on military bases. To calculate the value of meals and lodging furnished in-kind, you may assume that the value is equal to the combined Basic Allowance for Quarters (BAQ) and the Basic Allowance for Subsistence (BAS) the military member would have received had he or she been entitled to the allowance.

If nontaxable earned income is included on line 1 of the earned income credit worksheet, the person should write "NEI" to the left of the entry space on line 28c of Form 1040A or line 57 of Form 1040.

Eligibility

Members of the military who keep up a home for their child overseas do not qualify for the credit.

EXAMPLE

Cpl. Steuben, a member of the U.S. Army, is stationed in Germany. His wife and 9-year-old daughter live with him. Although the Steubens have both adjusted gross income and earned income under $20,264, file a joint return, and maintain a home for their dependent child, they cannot claim the earned income credit because they do not keep up a home in the United States for their child.

A member of the Armed Forces may be eligible for the earned income credit if he or she maintains a home in the United States and is absent only temporarily because of military service. A temporary absence will not prevent the taxpayer from maintaining a household in the United States if:

1. The taxpayer maintains the household in anticipation of a return, and
2. It is reasonable to assume the taxpayer will return to the household.

Exercise

Cpl. Graves, a member of the U.S. Army, is stationed in the Philippines. After his tour of duty he intends to return to the United States, where he maintains a home for his wife and 6-month-old daughter. His earned income is $15,000 and his adjusted gross income is $11,500. Is he eligible for the earned income credit?

Answer

A military person whose earned income and adjusted gross income is less than $20,264 and who does not qualify for the earned income credit should write "No" on line 28c of Form 1040A or line 57 of Form 1040.

Summary

In this lesson you have learned how the earned income credit rules apply to some military situations.

Answer to Exercise

Yes. He is temporarily absent because of military service.

Lesson 5

Sale of Home

Objectives

At the end of this lesson you will be able to:

1. Determine the time period in which a replacement home must be bought and occupied if the gain is to be postponed.
2. Identify some special provisions that might affect military personnel.

Introduction

The lesson *Sale of Home,* in the *Volunteer Assistor's Guide,* discusses the computation of gain or loss on the sale of a main home, the replacement period, postponement of tax on the gain, and exclusion of gain from income. In this lesson, we will discuss special provisions that affect military personnel. If you need more information, you should see the section on selling your home in Publication 17, *Your Federal Income Tax,* or Publication 523, *Tax Information on Selling Your Home.*

Replacement Period

If a taxpayer replaces a home, he or she must buy (or build) and live in it within a 4-year period beginning 2 years before the sale of the old home and ending 2 years after the sale to be able to postpone tax on the gain.

Occupancy test. A taxpayer must physically live in the replacement home as his or her main home within the required period. If the taxpayer moves furniture or other personal belongings into the new home but does not actually live in it, he or she has not met the occupancy test.

No added time beyond the specified periods is allowed for replacement and occupancy except as explained under *Suspension of time* and *Overseas assignment,* later. If a taxpayer had a gain on the sale of his or her old home and did not buy or build and live in another home within the replacement period, the taxpayer has no more time to do so. This is true even if the delay is due to conditions beyond the taxpayer's control, such as the military requirement to live in government quarters not connected with a tour of duty outside the United States.

A taxpayer who does not replace the home in time must file an amended return for the year of sale and report the entire gain on the sale of the old home. Also, if the taxpayer began building a new home, but for any reason was unable to live in it within 2 years after the sale of the old home, the taxpayer does not have any more time for occupancy and must report the entire gain on an amended return for the year of sale. The taxpayer must pay interest on the tax due on the gain.

Suspension of time. The replacement period after the sale of the old home is suspended while a taxpayer serves on extended active duty in the Armed Forces. To be on extended active duty, the taxpayer must serve under a call or order for an indefinite period or for more than 90 days. The suspension applies only if the service begins before the end of the 2-year replacement period after the sale. This time plus any period of suspension generally cannot last for more than 4 years after the taxpayer sells the home In other words, the suspension period generally may not be longer than 2 years, but will be shorter if the active duty served after the sale is less than 2 years. However, see *Overseas assignment,* later, for an extension of the period of suspension.

EXAMPLE

Warrant Officer Joe Gym is a regular member of the Armed Forces stationed in the United States. Joe sold his home on July 1, 1990. His tax on the gain from

the sale of the old home may be postponed only if he buys or builds, and lives in, another home by July 1, 1994.

EXAMPLE

Captain Shirley Free sold her home on April 2, 1990. On July 2, 1990, she entered the Armed Forces on active duty, and she will be released on June 30, 1992 (her entire tour of duty will be spent in the United States). She must buy (or build) and live in the replacement home by April 2, 1994. This is a total replacement period of 4 years (3 months before she joined the Armed Forces plus the 1 year and 9 months after her discharge, plus the 2-year suspension period while she was on active duty).

Overseas assignment. The replacement period is suspended while the member is stationed outside the United States. The replacement period may also be suspended on the member's returning from a tour of duty abroad and being stationed at a remote site, while he or she is required to live in on-base quarters because adequate off-base housing is not available. To qualify under the remote site provision, there must have been a determination by the Secretary of Defense that adequate off-base housing is not available at the remote site. If the member sells his or her home after July 18, 1984, the replacement period will not expire until one year after the last day the member is stationed outside the United States or the last day the member is required to reside in on-base quarters. However, the replacement period, including any period of suspension, cannot last more than 8 years after the sale of the home.

A taxpayer who qualifies for this additional extension of up to one year and has already filed a 1987, 1988, or 1989 income tax return reporting gain from the sale of a home that is further postponed by this change may file Form 1040X, *Amended U.S. Individual Income Tax Return,* to claim a refund. The taxpayer can postpone the gain on the sale of a home for the additional period or defer gain on the sale of the old residence if a new home is purchased and used in the replacement period.

✶ **Note:** Due to the extended replacement period, the claim for refund may be barred by the statute of limitations for filing a claim. To avoid difficulties, the taxpayer should file a protective claim for refund when he or she files the return and pays the tax. For more information, get Publication 523.

EXAMPLE

Lieutenant Andrea Rogers sold her condominium on August 1, 1987. During the 4 years after August 1, 1987, she serves outside the United States and on returning to the United States, she is stationed at a remote site where she is required to live in on-base housing because off-base housing is not available. The time to replace her home is suspended while she serves outside the United States and is required to live in on-base housing, plus up to one year later, not to exceed a total of 8 years after the sale of her home. Lieutenant Rogers' replacement period plus her period of suspension cannot last beyond August 1, 1995.

Married couples. As long as one spouse is a member of the Armed Forces, the suspension of the replacement period applies whether the old home is owned by one of the spouses or by both spouses. However, both the old home and the new home must be used by both spouses as the main home.

If the couple are divorced or separated during the suspension period, the suspension period ends for the non-military member spouse on the day of the divorce or separation.

Exercise

Which of the following taxpayers replaced their homes within the period specified for postponement of gain?

a. Sergeant Dane has been in the U.S. Air Force since 1977. On April 10, 1987, she sold her mobile home. On May 18, 1990, she bought a new home, and

moved in on May 27.

b. Petty Officer John Fremont joined the U.S. Navy on October 20, 1986. He and his wife, Alice, put their houseboat up for sale at that time and sold it on January 10, 1987. He was medically discharged on October 31, 1988. They bought a new home on November 15, 1990, and occupied it 10 days later.

c. What if the Fremonts had bought the new home on October 15, 1990, and occupied it on October 27, 1990?

d. Captain Steve Stone has been on active duty in the U.S. Army since 1979. On June 15, 1986, he sold his condominium, and he lived in rented quarters until 1990. On June 10, 1990, he bought a new house, and moved in on July 1, 1990. He was not stationed outside the United States after 1981.

Answer

Special Issues

Some special situations can affect the reporting of the sale of a home.

Rental. The rules presented in this lesson apply to property that was the taxpayers' main home when they sold it. These rules do not apply to rental property the taxpayers owned, even if it was once their home. However, if taxpayers **temporarily** rent out either their old home before selling it, or their new home before moving into it (as a matter of convenience or for some other **nonbusiness** purpose), the property will still qualify for treatment under the rules in this lesson.

Taxpayers who have rental property should be referred to Publication 527, *Residential Rental Property (Including Rental of Vacation Homes)*, which discusses how to handle rental income and expenses, and depreciation. Publication 17, in the section on sale of property, gives the rules for sale of rental property.

EXAMPLE

Chief Petty Officer Ann Glynn transfers from San Diego to Norfolk. She places her home with a real estate agent to sell and moves to Norfolk. Three months later, the house in San Diego has not been sold, and she needs money to meet her mortgage payments in Norfolk. The real estate agent suggests renting the San Diego house until it can be sold, and Ann does so while still trying to sell it. Eight months after that, the house is sold. The house in San Diego is her old home, not rental property, and the rules for postponement of gain will apply to the sale.

Property used for business. Some taxpayers use part of their home for business purposes. For example, a military member's wife uses a room of their house for a pet-grooming business. If the house is sold, the postponement of gain rules apply only to the basis and gain that correspond to the part used as a home. Other rules, for sale of business property, apply to the part used for business. It is as if two separate properties were sold. To determine what part of the gain to treat each way, taxpayers should see *Property partly used as your home* in Publication 523, or consult a professional tax preparer.

More than one new home. If a taxpayer buys more than one main home during the normal replacement period, only the last home bought is considered for purposes of postponement of the gain. All other homes bought and sold during the replacement period are subject to the regular capital gain and loss rules. But see *Exception for work-related move*, later.

EXAMPLE

Gunnery Sergeant Steve Foster sold his home in Washington, DC, when he was transferred to Salem, Massachusetts, as a recruiter. The sale took place on November 1, 1988. His gain was $20,000, and the adjusted selling price was $55,000. In April, 1989, he bought a home in Salem for $60,000. He later saw a house he preferred in Marblehead, Massachusetts. In March, 1990, he was able to sell the house in Salem for $63,000 and buy the one in Marblehead for $74,000. Because the cost of the Marblehead house, $74,000, is more than the adjusted sales price of the Washington house, $55,000, Steve must file Form 2119, *Sale of Your Home,* to postpone the $20,000 gain on the Washington house and reduce his basis in the Marblehead house to $54,000. However, he will have to report a capital gain of $3,000 on the Salem house.

Exception for work-related move. If the taxpayer sells the second home because of a work-related move for which moving expenses are deductible, the second home is used to figure postponement of gain on the first home; and the third home is used to figure postponement of gain on the second.

EXAMPLE

If Gunnery Sgt. Foster had been transferred to Camp Lejeune in March 1990, and instead of buying the home in Marblehead after selling the house in Salem, had bought one in Jacksonville, North Carolina, he would postpone the gain on the sale of the Washington home based on the replacement home in Salem, and he would postpone the gain on the sale of the Salem home based on the purchase of the home in North Carolina.

Summary

1. The replacement period is generally the 4-year period beginning 2 years *before* the sale of the old home and ending 2 years *after* the sale.

2. The replacement period after the sale is suspended while the taxpayer serves on active duty in the Armed Forces, but generally cannot extend the time for replacement beyond 4 years from the date of sale.

3. If the home is sold after July 18, 1984, the replacement period is further suspended if a member of the Armed Forces meets the overseas assignment conditions. This suspension cannot extend the replacement period beyond 8 years from the date of sale.

4. If a taxpayer buys more than one home during the normal replacement period, only the last home bought is considered for purposes of postponement of the gain. All other homes bought and sold during the replacement period are subject to the regular capital gain and loss rules.

5. An exception to the "more than one home" rule applies if the purchase and sale of more than one home is the result of a work-related move for which moving expenses are deductible.

Answers to the Exercises

a) Qualifies because the suspension period due to active duty ran from 4-10-87 to 4-10-89 and the normal replacement period began on 4-11-89 and ran to 5-27-90, the day the house was bought and occupied. The 4 years were not up until 4-10-91.

b) Does not qualify because the suspension period due to active duty ran from 1-10-87 to the discharge date of 10-31-88. The normal replacement period ran from 10-31-88 to 10-31-90.

c) Qualifies because the home was bought and occupied by 10-31-90.

d) Does not qualify because the home was not occupied within the replacement period. The maximum suspension for military members not assigned overseas duty is 4 years (from 6-15-86 to 6-15-90).

Lesson 6

Moving Expenses

Objectives

At the end of this lesson you will be able to:

1. Identify qualifying moves.
2. Determine when allowances and reimbursements must be included in income.
3. Identify deductible moving expenses.
4. Compute the moving expense deduction using Form 3903, *Moving Expenses*.

Introduction

Moving expenses are deductible only as an itemized deduction. This lesson covers the moving expenses of military personnel. When a member of the Armed Forces is transferred to a new, permanent duty station, he or she may deduct certain moving expenses incurred.

When you assist military personnel who have moved, you will need to determine whether:

1. The move qualifies as a permanent change of station (PCS).
2. Moving expenses exceed allowances or reimbursements.
3. Allowances or reimbursements exceed moving expenses.

Permanent Change of Station

For military moves, only expenses incurred as a result of a permanent change of station are deductible. A **permanent change of station** includes:

A move from home to the area of the first post of active duty.

A move from one permanent post of duty to another.

A move from the last post of duty to home or to a nearer point in the United States, if the member moved within one year of ending active duty or within the period allowed under the Joint Travel Regulations.

Unaccompanied Tour

If a member of the Armed Forces deserts, is imprisoned, or dies, a permanent change of station for the spouse or dependents includes a move to the place of enlistment, the home of record, or any nearer point in the United States.

If the Armed Forces moves a member and his or her spouse or dependents to or from separate locations, the moves are treated as a single move to the member's post of duty. The expenses of both moves are combined and are deductible within normal dollar limitations, discussed later.

Exercise 1

Which of the following are permanent changes of station?

a. A move by an Air Force pilot to an airbase for a 6-month detail.
b. A move by an Army sergeant to his home 2 years after he ended active duty.
c. A move by a new enlistee from her home to her first post of duty.

Answer

Requirements

The moving expense deduction includes only expenses that are reasonable for the circumstances of the move. For example, the costs of any unnecessary side trips for sightseeing are not deductible. The costs of lavish and extravagant meals and lodging are also not deductible.

As you may have read in Publication 17, civilians must meet the distance test (the new job must be at least 35 miles farther from the former home than the old job was) and the time test (the civilian must work at least 39 weeks in the area of the new job during the 12 months after arrival). Members of the military may **disregard** these tests for moves required by official orders.

Payments in Kind, Allowances, and Reimbursements

The value of moving and storage services furnished to members of the Armed Forces in connection with a permanent change of station is not includible in gross income. Nor are any cash reimbursements or allowances received (including dislocation and trailer allowances), if they equal the moving expenses paid or incurred. If the reimbursements and allowances are more than the actual cost of moving, the difference must be **included** in gross income.

Exercise 2

a. A member of the Armed Forces must include in gross income all reimbursements, allowances, and the value of moving and storage services that the military organization furnishes. True or false?

Answer

b. If a member of the Armed Forces receives reimbursements or allowances of more than the actual moving expenses, he or she must include in income only the amount that exceeds actual expenses. True or false?

Answer

Any qualifying moving expenses that exceed the allowances or reimbursements provided to the member are deductible. The specific dollar limits for the deduction will be discussed later in the lesson.

You will need to determine whether a member has excess expenses and, if so, whether the expenses are deductible on the member's federal tax return.

Deductible Moving Expenses

Let us look at some of the moving expenses in detail. Certain moving expenses are subject to dollar limits. The actual dollar limitation amounts are listed on the moving expense forms. For more information about the following items, see the chapter on moving in Publication 17 or Publication 521, *Moving Expenses*.

Limitation on meals. The deduction on meal expenses (in excess of allowances or reimbursements for meals) is limited to 80% of the cost of meals (food and beverages) incurred by the taxpayer or family members during the househunting trip, while traveling to the new home, and while staying in temporary quarters.

Dollar Limitations

No dollar limits apply to the following moving expenses. They are deductible in full.

- ***The cost of moving household goods and personal effects*** includes hauling a trailer, packing, crating, in-transit storage, and insurance. It does not include the expense of moving furniture or other goods that the taxpayer bought on the way from the old home to the new home.

- ***The cost of reasonable travel and lodging expense*** from the old home to the new home includes automobile expenses, airfare, lodging for the taxpayer and members of his or her household, and meals (subject to the 80% limit).

Dollar limits apply to the following expenses. The taxpayer may not deduct more than $3,000 for all other moving expenses combined. For married persons filing separate returns, this limit is $1,500 if both spouses live together and both begin work in the new location.

- ***The cost of pre-move househunting trips*** includes transportation, meals (subject to the 80% limit), and lodging for the taxpayer and members of the household while traveling to and from the new job location to find a new home. A member of the Armed Forces may deduct these expenses only **after** receiving orders to transfer to the new post of duty. There is no limit to the number of trips taken.

- ***The cost of temporary living quarters*** in the new location includes only the meals (subject to the 80% limit), and lodging after the Armed Forces member reports for duty or obtains the transfer. These expenses are figured for any 30 consecutive days (90 days if the move is outside the United States). **Note:** The cost of pre-move househunting trips and temporary living quarters together may not exceed $1,500 ($750 if married filing separately and both spouses live together and both begin work in the new location) of the $3,000 total.

- ***The cost of selling the old home*** includes closing costs such as state transfer taxes, title fees, real estate commissions, attorneys' fees, and points (loan placement charges) the Armed Forces member must pay. Deductible moving expenses do not include a loss on the sale of a main home or home improvements made to help sell the home.

- ***The cost of buying a new home*** includes attorneys' fees, escrow fees, appraisal fees, title fees, and points (loan placement charges **not** representing interest). Deductible moving expenses do not include the purchase price and home improvements.

- ***The cost of settling an unexpired lease or acquiring a new lease*** includes attorneys' fees, commissions, and the loss of a security deposit if the lease was broken because of the move. The deductible cost does not include payments or prepayments of rents or security deposits required in obtaining a new lease. Do not deduct a security deposit that was lost because the vacated space needed cleaning or redecorating when the lease was ended.

Foreign moves. A foreign move is one from the United States or its possessions to a foreign country, or from one foreign country to another foreign country. It is **not** a move from a foreign country to the United States or its possessions. The limits are increased for foreign moves.

The limit for moving expenses other than the costs of moving household goods and traveling to the new residence is $6,000 for foreign moves; of this total no more than $4,500 may be for pre-move househunting trips and temporary living quarters. These expenses are figured for any 90 consecutive days.

Note: Do not include any services provided in-kind by the government in figuring the dollar limits.

No Double Deduction

A member of the Armed Forces may elect to claim expenses of buying or selling a home on Form 3903, *Moving Expenses*, or on Form 2119, *Sale of Your Home*, but not on both. However, any amount on line 14a of Form 3903 not deducted because of the dollar limit can be used to decrease the gain on Form 2119. Also, any amount on line 15a not deducted because of the dollar limit can be used to increase the basis of the new residence.

Exercise 3

Which of the following are deductible moving expenses for Major Boone? (Assume the member received no reimbursements from the government.)

a. Payment to Fulton Construction Company for home improvements made to Major Boone's former home.
b. Security deposit to Towner Apartments on the Boones' new apartment.
c. Commission on sale of the Boones' former home to Mercer Real Estate.
d. Payment to Shelby Transport Company to ship a piano that the Boones bought on the way to their new home.
e. Cost of having Major Boone's second car transported to the new job location.
f. Payment for meals while on the way to the new permanent duty station.

Answer

Reporting Moving Expenses

Moving expenses are deductible as an itemized deduction. Only deductible expenses that are more than reimbursements and allowances may be claimed.

Moving expense deductions should be figured on Form 3903, *Moving Expenses*, for moves to a home in the United States or its possessions, even if the taxpayer is moving from a location overseas. Taxpayers use Form 3903F, *Foreign Moving Expenses*, only if the home to which they are moving is in a foreign country. From Form 3903 or Form 3903F, the taxpayer carries the deduction to Schedule A, Form 1040. For more information, see Publication 521, *Moving Expenses*.

The following example illustrates applications of the rules discussed in this lesson.

EXAMPLE

Capt. Shirley Harding moved in 1990 from one base to another (405 miles) as a result of a military transfer. The government reimbursed her $50 for meals and $350 for her travel expenses on the way to her new job location. The travel and meals reimbursements were not reported as income on Form W–2. The $5,000 expense for transporting her household goods was furnished in-kind by the military. No other reimbursements or allowances were made.

Capt. Harding incurred the following expenses:

Travel and lodging en route	$ 500
Meals en route	$ 100
Pre-move househunting trips:	
Travel and lodging	$ 175
Meals	$ 60
Temporary quarters:	
Lodging	$ 250
Meals	$ 125
Commission on sale of former home	$4,500

The moving expense is computed on Form 3903 as follows:

Form **3903**
Department of the Treasury
Internal Revenue Service

Moving Expenses

- Attach to Form 1040.
- See separate instructions.

OMB No. 1545-0062
1990
Attachment Sequence No. **62**

Name(s) shown on Form 1040: Shirley Harding
Your social security number: 123 00 9876

1	Enter the number of miles from your **old** home to your **new** workplace	405
2	Enter the number of miles from your **old** home to your **old** workplace	2
3	Subtract line **2** from line **1**. Enter the result (but not less than zero)	403

If line **3** is 35 or more miles, complete the rest of this form. If line 3 is less than 35 miles, you may not deduct your moving expenses. This rule does not apply to members of the armed forces.

Part I Moving Expenses

Section A.— Transportation of Household Goods

4	Transportation and storage for household goods and personal effects			4

Section B.— Expenses of Moving From Old To New Home

5	Travel and lodging **not** including meals		5	150	
6	Total meals	6 50			
7	Multiply line 6 by 80% (.80)		7	40	
8	Add lines 5 and 7				8 190

Section C.— Pre-move Househunting Expenses and Temporary Quarters (for any 30 days in a row after getting your job)

9	Pre-move travel and lodging **not** including meals	9	175	
10	Temporary quarters expenses **not** including meals	10	250	
11	Total meal expenses for both pre-move househunting and temporary quarters — 11 185			
12	Multiply line 11 by 80% (.80)	12	148	
13	Add lines 9, 10, and 12	13	573	

Section D.— Qualified Real Estate Expenses

14	Expenses of (check one): a ☑ selling or exchanging your old home; or b ☐ if renting, settling an unexpired lease	14	4500	
15	Expenses of (check one): a ☐ buying your new home, or b ☐ if renting, getting a new lease	15		

Part II Dollar Limits

16	Enter the amount from line 13 — 16 573			
17	Enter the **smaller** of line 16 or $1,500 ($750 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990)	17	573	
18	Add lines 14, 15, and 17	18	5073	
19	Enter the **smaller** of line 18 or $3,000 ($1,500 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990)			19 3000
20	Add lines 4, 8, and 19. This is your moving expense deduction. **Enter here and on Schedule A (Form 1040), line 19. (Note:** *Any payments your employer made for any part of your move (including the value of any services furnished in kind) should be included on Form W-2. Report that amount on* **Form 1040, line 7.** *See* **Reimbursements** *in the Instructions.)*			20 3140

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Note: The $5,000 expense for transporting the household goods was not included because the Armed Forces provided this service.

Also, only the expenses in excess of reimbursements are shown on lines 5 and 6 of Form 3903. The meals on line 6 are subject to the 80% limitation since the Armed Forces did not reimburse Captain Harding for this portion of her meals. The meals, for which there was reimbursement, would not be subject to the 80% limitation, since the Armed Forces did not treat the reimbursement as compensation.

Exercise 4

Greg (SSN 321-00-4567) and Diane Carr need your assistance with their moving expenses. Greg Carr, an Airman in the Air Force, was transferred from Maxwell Air Force Base to Scott Air Force Base (700 miles). The Carrs are filing a joint tax return. Using the following information furnished by the Carrs, complete Form 3903. Assume no reimbursements.

Temporary living expenses for the first 35 days after the transfer:
lodging at $40 per day = $1,400
meals at $15 per day = $525

Security deposit for new apartment: $150

Greg lived only 3 miles from Maxwell Air Force Base.

Form **3903**

Department of the Treasury
Internal Revenue Service

Moving Expenses

- **Attach to Form 1040.**
- **See separate instructions.**

OMB No. 1545-0062

1990

Attachment Sequence No. **62**

Name(s) shown on Form 1040 | **Your social security number**

1	Enter the number of miles from your **old** home to your **new** workplace	1
2	Enter the number of miles from your **old** home to your **old** workplace	2
3	Subtract line **2** from line **1**. Enter the result (but not less than zero)	3

If line **3** is 35 or more miles, complete the rest of this form. If line 3 is less than 35 miles, you may not deduct your moving expenses. This rule does not apply to members of the armed forces.

Part I Moving Expenses

Section A.— Transportation of Household Goods

4 Transportation and storage for household goods and personal effects 4

Section B.— Expenses of Moving From Old To New Home

5 Travel and lodging **not** including meals 5

6 Total meals 6

7 Multiply line 6 by 80% (.80) 7

8 Add lines 5 and 7 8

Section C.— Pre-move Househunting Expenses and Temporary Quarters (for any 30 days in a row after getting your job)

9 Pre-move travel and lodging **not** including meals 9

10 Temporary quarters expenses **not** including meals 10

11 Total meal expenses for both pre-move househunting and temporary quarters 11

12 Multiply line 11 by 80% (.80) 12

13 Add lines 9, 10, and 12 13

Section D.— Qualified Real Estate Expenses

14 Expenses of (check one): a ☐ selling or exchanging your old home; or b ☐ if renting, settling an unexpired lease . . . 14

15 Expenses of (check one). a ☐ buying your new home, or b ☐ if renting, getting a new lease 15

Part II Dollar Limits

16 Enter the amount from line 13 16

17 Enter the **smaller** of line 16 or $1,500 ($750 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990) 17

18 Add lines 14, 15, and 17 18

19 Enter the **smaller** of line 18 or $3,000 ($1,500 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990) 19

20 Add lines 4, 8, and 19. This is your moving expense deduction. **Enter here and on Schedule A (Form 1040), line 19. (Note:** *Any payments your employer made for any part of your move (including the value of any services furnished in kind) should be included on Form W-2. Report that amount on* **Form 1040, line 7.** *See* ***Reimbursements*** *in the instructions.)* 20

For Paperwork Reduction Act Notice, see separate instructions. Form **3903** (1990)

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Summary

As a volunteer, you will assist some members of the Armed Forces who have moved. In this lesson you learned what moves qualify for tax benefits, what expenses are deductible, when meals are subject to the 80% limitation, and how to use Form 3903 to compute the moving expense deduction. These expenses are allowed only as an itemized deduction on Schedule A (Form 1040).

Answers to Exercises

1. c.

2. a. False
   b. True

3. c., e., and f. (80% of the meals are deductible)

4. See completed Form 3903. Only 30 days of temporary living expenses can be claimed on lines 10 and 11. The security deposit is not a deductible expense.

Form **3903**

Department of the Treasury
Internal Revenue Service

Moving Expenses

- Attach to Form 1040.
- See separate instructions.

OMB No. 1545-0062

1990

Attachment Sequence No. **62**

Name(s) shown on Form 1040

Greg & Diane Carr

Your social security number: 321 00 4567

1	Enter the number of miles from your **old** home to your **new** workplace	1 700
2	Enter the number of miles from your **old** home to your **old** workplace	2 3
3	Subtract line **2** from line **1**. Enter the result (but not less than zero)	3 697

If line **3** is 35 or more miles, complete the rest of this form. If line 3 is less than 35 miles, you may not deduct your moving expenses. This rule does not apply to members of the armed forces.

Part I Moving Expenses

Section A.— Transportation of Household Goods

4	Transportation and storage for household goods and personal effects		4

Section B.— Expenses of Moving From Old To New Home

5	Travel and lodging **not** including meals		5	
6	Total meals	6		
7	Multiply line 6 by 80% (.80)		7	
8	Add lines 5 and 7			8

Section C.— Pre-move Househunting Expenses and Temporary Quarters (for any 30 days in a row after getting your job)

9	Pre-move travel and lodging **not** including meals		9	
10	Temporary quarters expenses **not** including meals		10	1200
11	Total meal expenses for both pre-move househunting and temporary quarters	11 450		
12	Multiply line 11 by 80% (.80)		12	360
13	Add lines 9, 10, and 12		13	1560

Section D.— Qualified Real Estate Expenses

14	Expenses of (check one): a ☐ selling or exchanging your old home; or b ☐ if renting, settling an unexpired lease	14	
15	Expenses of (check one): a ☐ buying your new home, or b ☐ if renting, getting a new lease	15	

Part II Dollar Limits

16	Enter the amount from line 13	16 1560		
17	Enter the **smaller** of line 15 or $1,500 ($750 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990)		17	1500
18	Add lines 14, 15, and 17		18	1500
19	Enter the **smaller** of line 18 or $3,000 ($1,500 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990)			19 1500
20	Add lines 4, 8, and 19. This is your moving expense deduction. **Enter here and on Schedule A (Form 1040), line 19. (Note:** *Any payments your employer made for any part of your move (including the value of any services furnished in kind) should be included on Form W-2. Report that amount on* **Form 1040, line 7.** *See* **Reimbursements** *in the Instructions.)*			20 1500

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For Paperwork Reduction Act Notice, see separate instructions. Form **3903** (1990)

Lesson 7

Travel Expenses

Objectives

At the end of this lesson you will be able to:

1. Identify travel and transportation expenses (including meals) incurred by Armed Forces members.

Introduction

This lesson will identify and explain how to apply the rules concerning travel and transportation expenses incurred by members of the Armed Forces.

General Information

Reimbursed employee business expenses are generally not an adjustment to income. In cases where an adequate accounting is made to the employer and any excess reimbursement is returned to the employer, Form 2106 is **not required** to be filed.

Armed Forces employees must substantiate their expenses to the Federal Government and return any excess reimbursement. The records must be permanent, accurate, and complete. Adequate records include documents such as receipts and checks, account books, diaries, trip sheets, or similar items. To be considered adequate, the records should show the business purpose, time, place, and amount of the expense. If an automobile is involved, the records must also include the total miles driven and total business miles driven.

Form 1040

Deductible employee business expenses can only be taken as an itemized deduction on Schedule A, Form 1040, and are subject to the 2% of adjusted gross income limit.

Excess reimbursements (not returned to the employer) for employee business expenses must be included in income on line 7 of Form 1040. These reimbursements do not include any "qualified military benefit" as defined in Lesson 1.

Form W-2

If the employee is reimbursed under a plan where the employee is required to adequately account for all expenses or return any funds that are more than the substantiated expenses, then the reimbursement will **not** be included as income in Box 10 of Form W-2. Therefore, the employee **cannot** deduct these expenses. As stated before, expenses of members of the Armed Forces normally must be accounted for and any excess returned in order for the employee to be reimbursed or paid per diem.

Temporary duty (TDY and TAD) allowances for travel and transportation are not reported as income on Form W-2. If there are excess expenses on some trips and the employee wants to claim them as employee business expenses, the employee must report all TDY and TAD trip expenses incurred during the year on Form 2106, and include all TAD and TDY allowances received as reimbursements on Form 2106.

Form 2106

Armed Forces personnel must complete Form 2106 and attach it to their Form 1040 to claim **unreimbursed** or **unaccounted for** travel or transportation expenses. Form 2106 will **not** have to be used if the Armed Forces member is claiming only unreimbursed employee business expenses such as professional dues, subscriptions to professional journals, educational expenses, and uniform expenses as discussed in Lesson 8. These expenses are carried to line 20,

Schedule A (Form 1040) as miscellaneous itemized deductions subject to the 2% of adjusted gross income limit.

Remember that if the Armed Forces member does not claim reimbursement from the military that he or she is entitled to, there is no deduction for the expenses to which that reimbursement applies.

Meals

The cost of meals can be an employee business expense. This includes meals while on travel and for entertainment purposes. Regardless of reimbursement, the deduction for meals will be limited to 80% of the actual expenses. The deduction can be taken only on Schedule A, line 20. The 80% limitation is applied before the 2% limit for adjusted gross income. If the employee is reimbursed under a plan where the reimbursement for the meals is excludable from gross income, no deduction will be allowed to the Armed Forces member. For information on using the "standard meal allowance" instead of actual expenses, see Publication 463.

Travel Expenses

To be deductible, travel expenses must qualify as ordinary and necessary expenses incurred while traveling away from home. Such expenses include, for example, airfares, the costs of operating and maintaining a car, as well as meals and lodging.

"Ordinary" and **"necessary"** expenses incurred by an employee when carrying on official business are deductible as miscellaneous itemized deductions on Schedule A, Form 1040, to the extent that the expenses are greater than any reimbursements or allowances received for those expenses. **"Ordinary"** expenses are customary or usual in the employee's field of business. **"Necessary"** expenses are appropriate or helpful in the progress of the employee's job or business.

Away From Home

For costs other than transportation to be deductible, the traveler must be "away from home." The term, "away from home," has a special meaning for tax purposes.

"Home" is the taxpayer's main place of business or post of duty. This includes the city or general area where his or her business or work is located, regardless of where the taxpayer or his or her family lives. For the military, the "home" is the permanent duty station.

"Away from home" means away for a period substantially longer than an ordinary day's work, during which taxpayers need time off for sleep or rest. (For examples, see the section in Publication 17 on travel expenses.) Members of the Armed Forces are away from home if they are away from their permanent duty stations long enough to require significant rest or sleep in order to be able to complete their duties.

No Deduction for Personal Expenses

For travel expenses to be deductible, there must be a work-related purpose for the travel in which the expenses are incurred. The taxpayer may not deduct expenses of personal travel, such as vacations, sightseeing, entertaining, visits to family, or returning home after discharge.

Allowable Expenses (as itemized deductions subject to the 2% of adjusted gross income limit on line 20 of Schedule A (Form 1040))

Common travel expenses for a member of the Armed Forces include:

1. Expenses incurred while on temporary duty or temporary additional duty if away from home (ship, base, or station).

2. Expenses a reservist incurred to attend drills in which he or she must be away from home.

3. Meals and lodging of a reservist temporarily called to active duty.

4. Travel expenses, including meals and lodging, incurred in connection with deductible educational activities.

5. Traveling expenses incurred when carrying on official business while on "No Cost" (to the government) orders.

On temporary duty (TDY) or temporary additional duty (TAD), travel and other expenses, such as those incurred for meals, lodging, taxicabs, business telephone calls, tips, laundry, and cleaning, **in excess of reimbursements,** are deductible if the taxpayer is away from home (ship, base, or station), subject to limitations discussed earlier.

Mess bills afloat are not deductible by an officer assigned to permanent duty aboard a ship. Bills may be deductible as travel expenses by individuals and members of mobile units in a travel or TAD status while away from their permanent ships or stations.

Travel expense deductions are available to air squadron personnel when away from the squadron's home base on TAD and to Army personnel when on field duty or maneuvers in a TDY status.

Officers assigned permanent duty afloat may deduct the cost of meals and lodging incurred while on travel or TAD ashore if the ship is not berthed at the temporary duty station, or if the ship is berthed at the temporary duty station but quarters aboard are not available. No deduction is permitted for meals or lodging if furnished or available in-kind at the place of TAD, even if not used.

Reservists

Unreimbursed travel expenses, including meals and lodging, are deductible for military reservists who, under competent orders and with or without compensation, must remain away from their main place of business to perform authorized drills and training duty.

Temporary active duty. Reservists temporarily called to active duty may deduct meals and lodging while on active duty if they kept their regular job while on active duty, returned to it after release, and were stationed away from the general area of that job or business. These expenses are deductible only if the reservists pay for meals and lodging at their official military post and only to the extent the expenses exceed BAQ and BAS.

Exercise 1

a. Sgt. Meeker is stationed in Korea. His wife and children could not accompany him and have remained at the home they had in the United States before his transfer. May he deduct the cost of his meals and lodging?

Answer

b. May Sgt. Meeker, in the circumstances above, deduct the cost of meals and lodging for his wife and children?

Answer

c. May Sgt. Meeker take a deduction for the cost of returning home to visit his family?

Answer

Educational Expenses

In 'esson 8, you will learn about deductions for educational expenses. Taxpayers cannot deduct the cost of travel that in itself constitutes a form of education. If educational expenses qualify for a deduction under the rules given in lesson 8, then **travel** for that education is travel for a business purpose, and the transportation, meals and lodging expenses may be deducted according to the general rules discussed at the beginning of this lesson.

EXAMPLE

Airman Dawes is sent from his permanent duty station to a technical school 500 miles away to learn the latest uses of computers for diagnosing engine performance and maintenance requirements. If his expenses for travel **exceed the allowances and reimbursements he receives,** he may take the excess as a miscellaneous itemized deduction, subject to the 2% AGI limitation.

Lesson 8 will explain which other educational expenses may be deducted.

Exercise 2

Which of the following may be taken as deductions?

a. Travel expenses in excess of allowances and reimbursements when the taxpayer is on temporary additional duty trips.

b. Mess bills of an officer on the ship to which he or she is permanently assigned.

c. Meals costing more than allowances or reimbursements while the taxpayer attends assigned schooling away from his or her permanent station.

d. Laundry expenses the taxpayer incurs while traveling on temporary active duty and for which no allowance or reimbursement is received.

Answer

Transportation Expenses

Transportation expenses are the expenses of getting from one work place to another while not traveling away from home. Such expenses include the costs of operating and maintaining a car, but not meals and lodging. If taxpayers are required during their time on duty to go from one place to another (for example, as a courier or messenger, or to attend meetings or briefings) without being "away from home," their unreimbursed travel expenses are deductible. When use

of their own vehicle is necessary, they may deduct the expense of using it. However, commuting expenses are never deductible.

Temporary Work Location

If you have a regular place of business and commute to a temporary work location, you can deduct the expenses of the daily round-trip transportation between your residence and the temporary location. A temporary location is one where you work on an irregular or short-term (generally a matter of days or weeks) basis.

EXAMPLE

Capt. Grand travels from his duty station in California to Washington, DC, for a conference. He is away for 5 days. The Army advanced Capt. Grand $700 for the trip. Capt. Grand found that his actual expenses were $625 when he filed his travel voucher to the Army; so he returned the excess of $75. The captain does not complete Form 2106.

Summary

In this lesson you have learned that:

1. Travel and transportation expenses can be taken as miscellaneous itemized deductions, subject to the 2% limitation on Schedule A (Form 1040).
2. Travel expenses for meals, lodging, and incidentals must be incurred while "away from home" to be deductible.
3. Commuting and other personal expenses are not deductible.
4. Some education can be for a business purpose. Travel costs associated with deductible educational expenses are treated like other business travel costs.
5. Form 2106 and Schedule A (Form 1040) are used to figure and claim the itemized deduction for employee business expenses in excess of reimbursement.

Answers to Exercises

1.
   a. No.
   b. No.
   c. No.

2. a., c., and d.

Lesson 8

Miscellaneous Itemized Deductions

Objective

At the end of this lesson you will be able to identify miscellaneous itemized deductions of particular interest to the military.

Introduction

Certain miscellaneous itemized deductions, including unreimbursed employee business expenses and investment expenses, are deductible only if the total deductions exceed two percent of the taxpayer's adjusted gross income. All deductible miscellaneous itemized deductions discussed in this lesson are subject to the 2% AGI limitation. A general discussion of miscellaneous deductions is in the *Volunteer Assistor's Guide.* This lesson explains some additional itemized deductions of special interest to members of the military. To claim miscellaneous deductions, a taxpayer must use Schedule A (Form 1040), *Itemized Deductions.*

Uniforms

Taxpayers can deduct the cost of buying and keeping up uniforms if the uniforms are specifically required as a condition of employment and the uniforms are not adaptable to general use as regular clothing.

Generally, members of the Armed Forces are required to wear uniforms when they are on duty and may wear them when they are off duty. Since their uniforms can be worn in place of regular civilian clothing, members of the military may **not** claim a deduction for uniform cost and upkeep. However, if military regulations prohibit off-duty wear of certain uniforms, the member can deduct the cost and upkeep of these uniforms. But he or she must reduce any deductible uniform costs incurred by any nontaxable uniform allowances or reimbursements received to pay for these expenses.

Active Duty Uniforms

Members of the Armed Forces on active duty can deduct amounts spent to buy and keep up required military fatigue uniforms if local military regulations prohibit their off-duty wear. The member must reduce the expense by any nontaxable uniform allowance or reimbursement received.

Reservists' Uniforms

A reservist in the Armed Forces can deduct the cost and upkeep of uniforms if military regulations prohibit the reservist from wearing the uniform except while performing duties as a reservist. The reservist must, however, reduce the uniform expense by any nontaxable uniform allowance or reimbursement received.

Articles Not Replacing Regular Clothing

A member of the Armed Forces can deduct the cost of required items that do not replace regular clothing. Such items include insignia of rank, corps devices, epaulets, aiguillettes, and swords.

Exercise 1

Indicate if the following are deductible or nondeductible on the income tax return of a member of the Armed Forces.

a. The cost of an Army dress blue uniform (without shoulder boards or gold stripe on pants) including cape. (Off-duty wear is not prohibited.)

Answer

b. The cost of a full Army green uniform (without braid) which can be worn anytime.

Answer

c. The cost of gold braid for decoration of cap and uniform.

Answer

d. The cost of fatigues which can be worn only while on duty or while traveling to and from duty.

Answer

Professional Dues

Taxpayers, including members of the Armed Forces, can deduct dues paid to professional societies directly related to their trade or business. For example, Lt. Margaret Allen, an electrical engineer at Maxwell Air Force Base, can deduct professional dues paid to the American Society of Electrical Engineers.

However, members of the Armed Forces **cannot** deduct amounts paid to an officers' club or a noncommissioned officers' club.

Educational Expenses

Travel and transportation expenses for educational purposes were discussed in Lesson 7. In this lesson, you'll learn what educational expenses can be claimed as miscellaneous deductions on Schedule A (Form 1040).

Taxpayers, including members of the Armed Forces, can claim certain educational expenses on their federal return. Certain rules must be met, however, for their expenses to qualify as a deduction.

Qualifications

Any taxpayer, including a member of the Armed Forces, can deduct expenses for education, even though the education may lead to a degree, if the education:

- Is required by the taxpayer's employer, or by law or regulations, for the taxpayer to keep salary, status, or job (if these requirements serve a business purpose of his or her employer); or
- Maintains or improves the skills required in the taxpayer's present work.

A taxpayer **cannot** deduct educational expenses, even though the above requirements are met, if the education:

- Is to meet the minimum educational requirements needed to qualify the taxpayer in his or her trade or business; or

- Is part of a program of study that will lead to qualifying the taxpayer for a new trade or business even if he or she has no plans to enter that trade or business.

Some examples will help illustrate the various rules.

EXAMPLE Warrant Officer Nolan, an Army pilot, incurred educational expenses to obtain an accounting degree. He cannot deduct these expenses, because they qualify him for a new trade or business.

EXAMPLE Lieutenant Commander Mason, who has a degree in financial management, is in charge of base finance at her post of duty. She incurred educational expenses to take an advanced finance course. She can deduct educational expenses that were more than the educational allowance she received, because she had already met the minimum qualifications of her job. By taking the course, she improved skills in her current position. The course did not qualify her for a new trade or business.

Deductible Expenses

Education expenses and certain travel and transportation expenses related to education may be claimed on Form 2106, *Employee Business Expenses.* Those expenses in excess of reimbursement will be deductible only as a miscellaneous itemized deduction on Schedule A, Form 1040, and will be subject to the two percent limitation discussed earlier. For more information, refer to Publication 508, *Educational Expenses,* and lesson 7, *Travel Expenses,* in this publication.

Deductible educational expenses include amounts spent for tuition, books, supplies, laboratory fees, correspondence courses, the typing of research papers, and travel. Educational expenses of a personal nature are not deductible. For example, a taxpayer cannot deduct the cost of dinner on campus while he or she attends evening classes. Also, deductible educational expenses do not include items of a capital nature such as typewriters or desks.

Treatment of Allowances and Reimbursements

A member of the Armed Forces must reduce deductible educational expenses by any allowances and reimbursements for those expenses. Any educational services provided in-kind are not deductible. For example, base-provided transportation to or from class could not be claimed.

Exercise 2 Sgt. Stephen Baker is a mess sergeant. On his own, he takes courses at the local university in early childhood education. Does he have deductible educational expenses? Why?

Answer

Exercise 3 Specialist Bates is a qualified X-ray technician. Would he have deductible educational expenses if he took a course required by the Army in new radiology techniques? Assume the expenses were more than reimbursements and allowances.

Answer

Exercise 4

Which of the following may be claimed as miscellaneous itemized deductions by a member of the Armed Forces?

a. Payment to an officers' club.
b. Expenses incurred by a flight operations officer to obtain an accounting degree.
c. Cost of epaulets.
d. Cost and upkeep of a reservist uniform when local military regulations prohibit off-duty wear. (No uniform allowance received.)
e. Expenses incurred by a Navy disbursing clerk to learn television repair.

Answer

Summary

As a volunteer assisting members of the Armed Forces, you will be asked many questions about itemized deductions. In this lesson, you learned about some of the more common itemized deductions of special interest to military members. As stated earlier, the total of these miscellaneous deductions must exceed 2% of adjusted gross income in order to be deductible.

Answers to Exercises

1.
   a. Nondeductible
   b. Nondeductible
   c. Deductible
   d. Deductible

2. No. The courses were not required, do not improve Sgt. Baker's skills as a mess sergeant, and could lead to qualifying him for a new trade or business.

3. Yes. The course is required by Specialist Bates' employer, improves skills in his present job, is not needed to meet the minimum educational requirements of his job, and will not lead to qualifying him for a new trade or business.

4. c. and d.

Lesson 9

Filing Returns

Objectives

At the end of this lesson you will be able to:

1. Determine where and when to file a federal tax return.
2. Identify situations in which extensions of time to file are granted and determine the length of these extensions.

Introduction

All taxpayers are concerned with the questions of when and where to file federal tax returns. You can find the general rules for filing returns in the *Volunteer Assistor's Guide*. You will be advising military persons on when and where to file their returns. This lesson is about special concerns for members of the Armed Forces.

Taxpayer Identification

All taxpayers, including members of the Armed Forces, should give their name, social security number, and permanent home address on the return. Taxpayers who are due a refund and do **not** want it mailed to their permanent home address should enter their current address on the return. If the postal service does not deliver to the taxpayer's street address, and the taxpayer has a post office box, he or she should enter the post office box number on the line for the present home address.

Change of Address

If a taxpayer changed his or her mailing address during the year, the taxpayer should have notified the Internal Revenue Service of the change on Form 8822, *Change of Address*. If the form has not yet been completed, you should help the taxpayer fill it out and mail it to the Internal Revenue Service Center for the old address (addresses for the Service Centers are listed on the back of the form).

Where to File

Taxpayers should send their federal returns to the Internal Revenue Service Center for the place where they reside. For example, Sgt. Kane, who is stationed in Maine but whose permanent home address is California, should send her federal return to the service center for Maine. The instructions for Forms 1040, 1040A, and 1040EZ give the addresses for the service centers, including the Philadelphia Service Center for APO and FPO addresses.

Taxpayers who are outside the United States and have no legal residence or principal place of business in the United States should send their returns to the address listed in the forms instructions. Taxpayers who live in Guam or the Virgin Islands should use the addresses in the instructions.

When to File

Most individual tax returns cover a calendar year, January through December. Taxpayers who live in the United States or Puerto Rico and who use the calendar-year period should file their individual tax returns by April 15 of the following year. If April 15 falls on a Saturday, Sunday, or legal holiday, the due date is the next business day. (For 1990 tax returns, the normal due date is April 15, 1991.)

Extensions

Taxpayers may receive extensions of time to file their returns. Different rules apply to taxpayers who live in the United States and those who live outside the United States.

Within the United States

A taxpayer living in the United States may receive an automatic 4-month extension of time to file Form 1040 or Form 1040A. The taxpayer should file Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*. The taxpayer must file the application, by the normal due date for the tax return, with the service center where the return will be filed.

The extension to file does not mean the taxpayer has an extension to pay. On Form 4868 the taxpayer must tentatively estimate tax, taking into account any payments such as withholding or estimated tax payments. **Any tax due must be sent in with Form 4868.**

A taxpayer may have to pay penalties as well as interest for underestimating the actual tax due. Refer to the chapter on filing returns in Publication 17 for more details.

A notice of approval will not be sent to the taxpayer. If Form 4868 is filed late or if the balance due is not paid in full, the request for extension will be denied. The Internal Revenue Service will inform the taxpayer of the denial.

A taxpayer who uses the automatic extension **cannot:**
Use Form 1040EZ, or
Choose to have IRS figure the tax.

Any payment made with the application should be entered on line 58, Form 1040, or added to the total on line 28d, Form 1040A.

The taxpayer may request an extension beyond this 4-month period by filing Form 2688, *Application for Additional Extension of Time To File U.S. Individual Income Tax Return,* or by letter. Except in undue hardship cases, this additional extension will not be granted unless Form 4868 has been used first. Form 2688 or the taxpayer's letter will not be considered if filed after the extended due date. If Form 2688 is filed and an extension is granted, and it is discovered later that the information on this application was false or misleading, the extension is void. The taxpayer may then be subject to a penalty for not filing on time.

Outside the United States and Puerto Rico

U.S. citizens and resident aliens who are living outside the United States and Puerto Rico on April 15 and their main place of business or their assigned tour of duty is outside the United States and Puerto Rico are allowed an automatic extension of time until June 15 to **file** the return for the 1990 calendar year and **pay** any tax due. However, interest will be charged on any amount not paid by April 15, the normal due date, until the date paid.

Note: No extension will be granted to a taxpayer who is merely traveling outside the United States and Puerto Rico. Traveling outside the United States and Puerto Rico for at least 14 days (including the normal due date) *no longer qualifies* the taxpayer for an automatic 2-month extension.

Taxpayers using this automatic extension must attach a statement to the return stating they were living outside the United States and Puerto Rico on the due date and their main place of business or their assigned tour of duty is outside the United States and Puerto Rico.

If married persons are filing separate returns, both spouses must have been living outside the United States and Puerto Rico on April 15, and their main place of business or their assigned tour of duty is outside the United States and Puerto Rico in order for both to qualify for this extension. If they are filing a joint return, only one of the spouses needs to have been living outside the United States and Puerto Rico on April 15, and his/her main place of business or assigned tour of duty is outside the United States and Puerto Rico.

As discussed in the section on extensions within the United States, taxpayers who live outside the United States and Puerto Rico and whose main place of business or assigned tour of duty is outside the United States and Puerto Rico can also request an additional extension by filing Form 4868 on or before the automatic extension date of June 15. The due date will then be extended to August 15. To obtain the additional extension, the taxpayer must pay, with Form 4868, any tax due and must write in the top margin of the Form 4868 "Taxpayer Abroad." If more time is needed, the taxpayer should request it as explained in the above information on Form 2688.

Exercise 1

Pvt. Franklin, a U.S. citizen, is a calendar-year taxpayer. What would be the due date for him to file a return if his assigned tour of duty was in the following places?

a. Puerto Rico

Answer

b. Germany

Answer

c. United States

Answer

Exercise 2

Capt. Russell is stationed in England on April 15. He is concerned about when he should file his federal tax return. Answer the following questions Capt. Russell asks you.

a. What extensions of time are available?

Answer

b. How can I get these extensions?

Answer

Summary

In this lesson you have learned where taxpayers, including members of the Armed Forces, should file their returns. You have also learned when the returns are due for taxpayers who live both inside and outside the United States and Puerto Rico, and how extensions of time to file can affect the due date.

Answers to Exercises

1. a. April 15

   b. June 15 if he attached a statement to his return indicating that he was living outside the United States and Puerto Rico and on an assigned tour of duty in Germany on the due date.

   c. April 15

2. a. An automatic 2-month extension of time to file and pay, and an additional 2-month extension of time to file (for a total of 4 months).

   b. Captain Russell can obtain the automatic 2-month extension by attaching a statement to his tax return indicating that he was on an assigned tour of duty outside the United States and Puerto Rico on April 15. If Captain Russell needs an additional extension of time, he can file Form 4868 with the service center where his return will be filed. He must file Form 4868 by the automatic extension date of June 15. He should write "Taxpayer Abroad" in the top margin of Form 4868 and send in, with the extension form, any tax due. If he still needs additional time, he should request it before the extended due date of August 15 by filing Form 2688, or by letter.

Summary Problems

Problem 1

Corporal Michael Adams, a U.S. citizen, SSN 271-00-3456, is stationed in Heidelberg, Germany, on April 15, 1991. He and his wife, Frieda, a citizen of Germany, SSN 654-00-3217, want to make the special election to file a joint return. They have one son, John, age 4, SSN 231-00-6457, who qualifies as their dependent. Their address in Heidelberg is 43 Wilhelmstrasse.

Corporal Adams had the following sources of income: wages of $13,500; interest of $40; uniform allowance of $150; and basic allowance for quarters (BAQ) of $3,000. Corporal Adams had $450 of federal income tax withheld from his wages. His wife had no income.

a. When should the Adamses file their return?

Answer

b. Complete a federal tax return for Corporal Adams and his wife.

Form **1040A**

Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return 1990

PROOF COPY

OMB No. 1545-0085

Step 1 Label

(See page 14.)

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name

If a joint return, spouse's first name and initial | Last name

Home address (number and street). (If you have a P.O. box, see page 15.) | Apt. no.

City, town or post office, state and ZIP code. (If you have a foreign address, see page 15.)

Your social security no.

Spouse's social security no.

For Privacy Act and Paperwork Reduction Act Notice, see page 3.

Presidential Election Campaign Fund (see page 15)

Do you want $1 to go to this fund? ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Step 2 Check your filing status

(Check only one.)

1 ☐ Single. (See page 16 to find out if you can file as head of household.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here ▶ _____

4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here ▶ _____

5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 17.)

Step 3 Figure your exemptions

(See page 17.)

6a ☐ **Yourself** If someone else (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 18b on page 2.

6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c Dependents: 1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1990

If more than 7 dependents, see page 20.

No. of your children on 6c who:

- lived with you ____
- didn't live with you due to divorce or separation (see page 20) ____

No. of other dependents listed on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed. Add numbers entered on lines above ☐

Step 4 Figure your total income

Attach Copy B of your Forms W-2 and W-2P here.

Attach check or money order on top of any Forms W-2 or W-2P.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7

8a **Taxable** interest income (see page 23). (If over $400, also complete and attach Schedule 1, Part I.) 8a

b **Tax-exempt** interest. (DO NOT include on line 8a.) 8b

9 Dividends. (If over $400, also complete and attach Schedule 1, Part II.) 9

10a Total IRA distributions. 10a | **10b** Taxable amount (see page 24). 10b

11a Total pensions and annuities. 11a | **11b** Taxable amount (see page 24). 11b

12 Unemployment compensation (insurance) from Form(s) 1099-G. 12

13a Social security benefits. 13a | **13b** Taxable amount (see page 27). 13b

14 Add lines 7 through 13b (far right column). This is your **total income.** ▶ 14

Step 5 Figure your adjusted gross income

15a Your IRA deduction from applicable worksheet. 15a

b Spouse's IRA deduction from applicable worksheet. **Note:** *Rules for IRAs begin on page 29.* 15b

c Add lines 15a and 15b. These are your **total adjustments.** 15c

16 Subtract line 15c from line 14. This is your **adjusted gross income.** (If less than $20,264, see "Earned income credit" on page 39.) ▶ 16

Step 6

Figure your standard deduction, exemption amount, and taxable income

17 Enter the amount from line 16. 17

18a Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶18a ☐

b If someone else (such as your parent) can claim you as a dependent, check here ▶18b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 33 and check here ▶18c ☐

19 **Enter your standard deduction. See page 34 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 19

20 Subtract line 19 from line 17. (If line 19 is more than line 17, enter -0-.) 20

21 Multiply $2,050 by the total number of exemptions claimed on line 6e. 21

22 Subtract line 21 from line 20. (If line 21 is more than line 20, enter -0-.) This is your **taxable income**. ▶ 22

Step 7

Figure your tax, credits, and payments

(If you want IRS to figure your tax, see page 35.)

23 Find the tax on the amount on line 22. Check if from: ☐ Tax Table (pages 48–53) or ☐ Form 8615 (see page 36) 23

24a Credit for child and dependent care expenses. Complete and attach Schedule 2. 24a

b Credit for the elderly or the disabled. Complete and attach Schedule 3. 24b

c Add lines 24a and 24b. These are your **total credits.** 24c

25 Subtract line 24c from line 23. (If line 24c is more than line 23, enter -0-.) 25

26 Advance earned income credit payments from Form W-2. 26

27 Add lines 25 and 26. This is your **total tax.** ▶ 27

28a Total Federal income tax withheld. (If any is from Form(s) 1099, check here ▶ ☐ .) 28a

b 1990 estimated tax payments and amount applied from 1989 return. 28b

c **Earned income credit.** See page 39 to find out if you can take this credit. 28c

d Add lines 28a, 28b, and 28c. These are your **total payments.** ▶ 28d

Step 8

Figure your refund or amount you owe

Attach check or money order on top of Form(s) W-2, etc. on page 1.

29 If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you **overpaid.** 29

30 Amount of line 29 you want **refunded to you.** 30

31 Amount of line 29 you want **applied to your 1991 estimated tax.** 31

32 If line 27 is more than line 28d, subtract line 28d from line 27. This is the **amount you owe.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, social security number, address, daytime phone number, and "1990 Form 1040A" on it. 32

33 Estimated tax penalty. (see page 43). 33

Step 9

Sign your return

Keep a copy of this return for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature | Date | Your occupation

Spouse's signature (if joint return, BOTH must sign) | Date | Spouse's occupation

Paid preparer's use only

Preparer's signature | Date | Check if self-employed ☐ | Preparer's social security no.

Firm's name (or yours if self-employed) and address | E.I. No. | ZIP code

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Problem 2

Captain Margaret A. Williams, SSN 271-00-6543, a legal assistance officer, is single. She was transferred from Scott Air Force Base in Illinois to Andrews Air Force Base in Maryland (a distance of 735 miles). On June 6, 1990, she sold her home in Illinois for $52,000. It was 37 miles from the base. She paid $2,300 in sales commissions and $150 for attorney's fees. She had originally bought this home for $46,000. Fixing-up expenses were $350, incurred and paid within 75 days before the sale. On July 11, 1990, she bought a new residence, 3219 33rd Ave., Hyattsville, MD 87145, for $68,000, and on July 20, 1990, she moved in.

She also incurred the following moving expenses:

Transportation (provided in-kind by the Air Force)	$2,800
Travel (from Illinois to Maryland)	$ 50
Meals en route	$ 25
Pre-move househunting trips (after receiving orders to transfer)	$ 250
Meals	$ 125
Temporary living expenses (during the first 30 days after transfer)	$ 150

The Air Force did not reimburse Captain Williams for any of these expenses.

Captain Williams' Form W–2 shows wages of $25,000, and she had interest income of $175. She knows her BAQ is not taxable. She also had a uniform allowance of $135. She had no other sources of income. Her federal income tax withheld was $2,450. She has no dependents.

Captain Williams had the following itemized deductions for the year:

Contributions to church	$ 500
Real estate taxes	$ 800
Deductible home mortgage interest	$4,000

Prepare Captain Williams' Form 1040, Schedule A, Form 2119, and Form 3903. (Hint: First consider Form 3903 and expenses of selling the home.)

Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return** **1990**

PROOF COPY

For the year Jan.–Dec. 31, 1990, or other tax year beginning , 1990, ending , 19 OMB No. 1545-0074

Label (See Instructions on page 8.) Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial Last name — Your social security number

If a joint return, spouse's first name and initial Last name — Spouse's social security number

Home address (number and street). (If you have a P.O. box, see page 9.) Apt. no.

City, town or post office, state and ZIP code. (If you have a foreign address, see page 9.)

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign (See page 9.)

Do you want $1 to go to this fund? Yes No

If joint return, does your spouse want $1 to go to this fund? Yes No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status Check only one box.

1 ☐ Single. (See page 9 to find out if you can file as head of household.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ▶

4 ☐ Head of household (with qualifying person). (See page 9.) If the qualifying person is your child but not your dependent, enter this child's name here. ▶

5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 9.)

Exemptions (See Instructions on page 10.)

6a ☐ **Yourself** If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2

b ☐ **Spouse**

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1990

If more than 6 dependents, see Instructions on page 11.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

No. of boxes checked on 6a and 6b

No. of your children on 6c who:
- lived with you
- didn't live with you due to divorce or separation (see page 11)

No. of other dependents on 6c

Add numbers entered on lines above

Income Attach Copy B of your Forms W-2, W-2G, and W-2P here. If you do not have a W-2, see page 8. Attach check or money order on top of any Forms W-2, W-2G, and W-2P.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*		7
8a	**Taxable** interest income *(also attach Schedule B if over $400)*		8a
b	**Tax-exempt** interest income (see page 13). DON'T include on line 8a	8b	
9	Dividend income *(also attach Schedule B if over $400)*		9
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 14		10
11	Alimony received		11
12	Business income or (loss) *(attach Schedule C)*		12
13	Capital gain or (loss) (attach Schedule D)		13
14	Capital gain distributions not reported on line 13 (see page 14)		14
15	Other gains or (losses) *(attach Form 4797)*		15
16a	Total IRA distributions 16a	16b Taxable amount (see page 14)	16b
17a	Total pensions and annuities 17a	17b Taxable amount (see page 14)	17b
18	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)		18
19	Farm income or (loss) *(attach Schedule F)*		19
20	Unemployment compensation (insurance) (see page 16)		20
21a	Social security benefits 21a	21b Taxable amount (see page 16)	21b
22	Other income (list type and amount—see page 16)		22
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶		23

Adjustments to Income (See Instructions on page 16.)

24a	Your IRA deduction, from applicable worksheet on page 17 or 18	24a	
b	Spouse's IRA deduction, from applicable worksheet on page 17 or 18	24b	
25	Deduction for self-employment tax, from worksheet on page 18	25	
26	Self-employed health insurance deduction, from worksheet on page 18	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. Recipient's SSN ▶	29	
30	Add lines 24a through 29. These are your **total adjustments** ▶		30

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this amount is less than $20,264 and a child lived with you, see page 23 to find out if you can claim the "Earned Income Credit" on line 57* ▶	31

Tax Computation

If you want IRS to figure your tax, see Instructions on page 19.

32	Amount from line 31 (adjusted gross income)			32
33a	Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind. Add the number of boxes checked and enter the total here ▶	33a		
b	If your parent (or someone else) can claim you as a dependent, check here ▶	33b	☐	
c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 19 and check here ▶	33c	☐	
34	Enter the **larger** of: • Your **standard deduction** (from applicable chart (or worksheet) on page 20), **OR** • Your **itemized deductions** (from Schedule A, line 27). If you itemize, attach Schedule A and check here ▶ ☐			34
35	Subtract line 34 from line 32			35
36	Multiply $2,050 by the total number of exemptions claimed on line 6e			36
37	**Taxable income.** Subtract line 36 from line 35. (If line 36 is more than line 35, enter -0-.)			37
38	Enter tax. Check if from: a ☐ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615 (see page 21) (If any is from Form(s) 8814, enter that amount here ▶ _____.)			38
39	Additional taxes (see page 21). Check if from: a ☐ Form 4970 b ☐ Form 4972			39
40	Add lines 38 and 39		▶	40

Credits

(See Instructions on page 21.)

41	Credit for child and dependent care expenses *(attach Form 2441)*	41		
42	Credit for the elderly or the disabled *(attach Schedule R)*	42		
43	Foreign tax credit *(attach Form 1116)*	43		
44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) _____	44		
45	Credit for prior year minimum tax (attach Form 8801)	45		
46	Add lines 41 through 45			46
47	Subtract line 46 from line 40. (If line 46 is more than line 40, enter -0-.)		▶	47

Other Taxes

48	Self-employment tax *(attach Schedule SE)*			48
49	Alternative minimum tax *(attach Form 6251)*			49
50	Recapture taxes (see page 22). Check if from: a ☐ Form 4255 b ☐ Form 8611			50
51	Social security tax on tip income not reported to employer *(attach Form 4137)*			51
52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*			52
53	Advance earned income credit payments, from Form W-2			53
54	Add lines 47 through 53. This is your **total tax**		▶	54

Payments

Attach Forms W-2, W-2G, and W-2P to front.

55	Federal income tax withheld **(If any is from Form(s) 1099, check ▶ ☐)**	55		
56	1990 estimated tax payments and amount applied from 1989 return	56		
57	**Earned income credit** (see page 23)	57		
58	Amount paid with Form 4868 (extension request)	58		
59	Excess social security tax and RRTA tax withheld (see page 24)	59		
60	Credit for Federal tax on fuels *(attach Form 4136)*	60		
61	Regulated investment company credit *(attach Form 2439)*	61		
62	Add lines 55 through 61. These are your **total payments**		▶	62

Refund or Amount You Owe

63	If line 62 is more than line 54, enter amount **OVERPAID**		▶	63
64	Amount of line 63 to be **REFUNDED TO YOU**		▶	64
65	Amount of line 63 to be **APPLIED TO YOUR 1991 ESTIMATED TAX** ▶	65		
66	If line 54 is more than line 62, enter AMOUNT YOU OWE. Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, social security number, address, daytime phone number, and "1990 Form 1040" on it			66
67	Estimated tax penalty (see page 25)	67		

Sign Here

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature ▶	Date	Your occupation
Spouse's signature (if joint return, BOTH must sign) ▶	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

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SCHEDULES A&B (Form 1040)

Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

► **Attach to Form 1040.** ► **See Instructions for Schedules A and B (Form 1040).**

OMB No. 1545-0074

1990

Attachment Sequence No. **07**

Name(s) shown on Form 1040

PROOF COPY

Your social security number

Medical and Dental Expenses		**Caution:** *Do not include expenses reimbursed or paid by others.*			
	1	Medical and dental expenses. (See page 27 of the Instructions.)	1		
	2	Enter amount from Form 1040, line 32. 2			
	3	Multiply the amount on line 2 by 7.5% (.075). Enter the result	3		
	4	Subtract line 3 from line 1. Enter the result. If less than zero, enter -0- ►		4	
Taxes You Paid	5	State and local income taxes	5		
	6	Real estate taxes	6		
(See Instructions on page 27.)	7	Other taxes. (List—include personal property taxes.) ►	7		
	8	Add the amounts on lines 5 through 7. Enter the total ►		8	
Interest You Paid	9a	Deductible home mortgage interest paid to financial institutions and reported to you on Form 1098. Report deductible points on line 10	9a		
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ►	9b		
(See Instructions on page 27.)	10	Deductible points. (See Instructions for special rules.)	10		
	11	Deductible investment interest (attach Form 4952 if required). (See page 28.)	11		
	12a	Personal interest you paid (See page 28.) 12a			
	b	Multiply the amount on line 12a by 10% (.10). Enter the result	12b		
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total ►		13	
Gifts to Charity		**Caution:** *If you made a charitable contribution and received a benefit in return, see page 29 of the Instructions.*			
(See instructions on page 29.)	14	Contributions by cash or check	14		
	15	Other than cash or check. (You **MUST** attach Form 8283 if over $500.)	15		
	16	Carryover from prior year	16		
	17	Add the amounts on lines 14 through 16. Enter the total ►		17	
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 29 of the Instructions.) ►		18	
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 30 of the Instructions.) ►		19	
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ►	20		
	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ►	21		
(See Instructions on page 30 for expenses to deduct here.)	22	Add the amounts on lines 20 and 21. Enter the total	22		
	23	Enter amount from Form 1040, line 32. 23			
	24	Multiply the amount on line 23 by 2% (.02). Enter the result	24		
	25	Subtract line 24 from line 22. Enter the result. If less than zero, enter -0-		25	
Other Miscellaneous Deductions	26	Other (from list on page 30 of Instructions). List type and amount ►		26	
Total Itemized Deductions	27	Add the amounts on lines 4, 8, 13, 17, 18, 19, 25, and 26. Enter the total here. Then enter on Form 1040, line 34, the LARGER of this total or your standard deduction from page 20 of the Instructions ►		27	

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1990

Form **3903**

Department of the Treasury
Internal Revenue Service

Moving Expenses

- Attach to Form 1040.
- See separate instructions.

OMB No. 1545-0062

1990

Attachment Sequence No. **62**

Name(s) shown on Form 1040 | Your social security number

1 Enter the number of miles from your **old** home to your **new** workplace 1

2 Enter the number of miles from your **old** home to your **old** workplace 2

3 Subtract line **2** from line **1**. Enter the result (but not less than zero) 3

If line **3** is 35 or more miles, complete the rest of this form. If line 3 is less than 35 miles, you may not deduct your moving expenses. This rule does not apply to members of the armed forces.

Part I Moving Expenses

Section A.— Transportation of Household Goods

4 Transportation and storage for household goods and personal effects 4

Section B.— Expenses of Moving From Old To New Home

5 Travel and lodging **not** including meals 5

6 Total meals 6

7 Multiply line 6 by 80% (.80) 7

8 Add lines 5 and 7 8

Section C.— Pre-move Househunting Expenses and Temporary Quarters (for any 30 days in a row after getting your job)

9 Pre-move travel and lodging **not** including meals 9

10 Temporary quarters expenses **not** including meals 10

11 Total meal expenses for both pre-move househunting and temporary quarters 11

12 Multiply line 11 by 80% (.80) 12

13 Add lines 9, 10, and 12 13

Section D.— Qualified Real Estate Expenses

14 Expenses of (check one): a ☐ selling or exchanging your old home; or b ☐ if renting, setting an unexpired lease . . . 14

15 Expenses of (check one): a ☐ buying your new home, or b ☐ if renting, getting a new lease 15

Part II Dollar Limits

16 Enter the amount from line 13 16

17 Enter the **smaller** of line 16 or $1,500 ($750 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990) 17

18 Add lines 14, 15, and 17 18

19 Enter the **smaller** of line 18 or $3,000 ($1,500 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990) 19

20 Add lines 4, 8, and 19. This is your moving expense deduction. **Enter here and on Schedule A (Form 1040), line 19. (Note:** *Any payments your employer made for any part of your move (including the value of any services furnished in kind) should be included on Form W-2. Report that amount on* **Form 1040, line 7.** *See* ***Reimbursements*** *in the Instructions.)* 20

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For Paperwork Reduction Act Notice, see separate instructions. Form **3903** (1990)

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ **See Separate Instructions.**

▶ **Please print or type.**

OMB No. 1545-0072

1990

Attachment Sequence No. 20

Your first name and initial (If joint, also give spouse's name and initial.) | Last name | Your social security number

Fill In Your Address Only If You Are Filing This Form by Itself and Not with Your Tax Return

Present address (no., street, and apt. no., rural route, or P.O. box no. if mail not delivered to street address) | Spouse's social security number

City, town or post office, state, and ZIP code

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Part I General Information

1a Date your former main home was sold (month, day, year) ▶

b Enter the face amount of any mortgage, note (e.g., second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale (see Instructions) ▶ $

2 Have you bought or built a new main home? ☐ Yes ☐ No

3 Is or was any part of either main home rented out or used for business? (If "Yes," see Instructions.) ☐ Yes ☐ No

Part II Gain on Sale *(Do not include amounts you deduct as moving expenses.)*

4	Selling price of home. (Do not include personal property items that you sold with your home.)	4
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5
6	Amount realized. Subtract line 5 from line 4	6
7	Basis of home sold. (See Instructions.)	7
8a	**Gain on Sale.** Subtract line 7 from line 6	8a

• If zero or less, stop here and attach the form to your return.

b If you haven't replaced your home, do you plan to do so within the replacement period (see Instructions)? (If "Yes," stop here, and see Instructions for additional filing requirements.) ☐ Yes ☐ No

Part III One-Time Exclusion of Gain for People Age 55 or Older *(If you are not taking the exclusion, go to Part IV now.)*

9a Were you 55 or older on date of sale? ☐ Yes ☐ No

b Was your spouse 55 or older on date of sale? (If both lines 9a and 9b are "No," go to Part IV now.) ☐ Yes ☐ No

c Did at least one spouse who answered "Yes" to line 9a or 9b own and use the property as their main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale? (If "No," go to Part IV now.) ☐ Yes ☐ No

d **If line 9c is "Yes," do you elect to take the one-time exclusion?** *(If "No," go to Part IV now.)* ☐ Yes ☐ No

e At time of sale, who owned the home? ☐ You ☐ Your spouse ☐ Both of you

f Social security number of spouse at time of sale, if you had a different spouse from the one above at time of sale. (Enter "None" if you were not married at time of sale.) ▶

g	**Exclusion.** Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return)	9g

Part IV Adjusted Sales Price, Taxable Gain and Adjusted Basis of New Home

10	If line 9g is blank, enter the amount from line 8a. Otherwise, subtract line 9g from line 8a • If zero, stop here and attach the form to your return. • If you answered "Yes" on line 2, go to line 11 now. • If you are reporting the sale on the installment method, stop here and see line 1b Instructions. • Otherwise, stop here and enter this amount on Schedule D, line 3 or line 10.	10
11	Fixing-up expenses. (See Instructions for time limits.)	11
12	**Adjusted Sales Price.** Subtract line 11 from line 6	12
13a	Date you moved into new home (month, day, year) ▶ ___/___/___ b Cost of new home	13b
14a	Add the amount on line 9g, if any, and the amount on line 13b and enter the result	14a
b	Subtract line 14a from line 12. If zero or less, enter -0-	14b
c	**Taxable gain.** Enter the smaller of line 10 or line 14b • If zero, do not enter on Schedule D, but go to lines 15 and 16 now and attach to your return. • If you are reporting the sale on the installment method, see line 1b Instructions and go to line 15. • Otherwise, enter this amount on Schedule D, line 3 or line 10 and complete lines 15 and 16.	14c
15	Postponed gain. Subtract line 14c from line 10	15
16	**Adjusted basis of new home.** Subtract line 15 from line 13b	16

Sign Here Only If You Are Filing This Form by Itself and Not with Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature | Date | Spouse's Signature | Date

▶ _____ _____ ▶ _____ _____

(If joint return, both must sign.)

For Paperwork Reduction Act Notice, see separate Instructions. Form **2119** (1990)

Answers to Summary Problems

1. a. Because they are outside the United States on April 15, they are allowed an automatic extension until June 15.
   b. See Exhibits P-1 and P-2. Note: They are not eligible for the earned income credit because all members of the household are overseas.

2. See Exhibits P-3 through P-7.

Exhibit P-1

Form **1040A**

Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return 1990

PROOF COPY

OMB No. 1545-0085

Step 1 Label

(See page 14.)

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: MICHAEL — Last name: ADAMS

If a joint return, spouse's first name and initial: FRIEDA — Last name: ADAMS

Home address (number and street). (If you have a P.O. box, see page 15.): 43 WILHELM STRASSE — Apt. no.:

City, town or post office, state and ZIP code. (If you have a foreign address, see page 15.): HEIDELBERG, GERMANY

Your social security no.: 271 00 3456

Spouse's social security no.: 654 00 3217

For Privacy Act and Paperwork Reduction Act Notice, see page 3.

Presidential Election Campaign Fund (see page 15)

Do you want $1 to go to this fund? ☒ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Step 2 Check your filing status

(Check only one.)

1 ☐ Single. (See page 16 to find out if you can file as head of household.)

2 ☒ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here ▶ _____

4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here ▶ _____

5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 17.)

Step 3 Figure your exemptions

(See page 17.)

6a ☒ **Yourself** If someone else (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 18b on page 2.

6b ☒ **Spouse**

No. of boxes checked on 6a and 6b: 2

c Dependents: 1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1990
JOHN ADAMS		231 00 6457	SON	12

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you: 1
- didn't live with you due to divorce or separation (see page 20): ____

No. of other dependents listed on 6c: ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed. Add numbers entered on lines above: 3

Step 4 Figure your total income

Attach Copy B of your Forms W-2 and W-2P here.

Attach check or money order on top of any Forms W-2 or W-2P.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)		7	13,500
8a	**Taxable** interest income (see page 23). (If over $400, also complete and attach Schedule 1, Part I.)		8a	40
b	**Tax-exempt** interest. (DO NOT include on line 8a.)	8b		
9	Dividends. (If over $400, also complete and attach Schedule 1, Part II.)		9	
10a	Total IRA distributions.	10a	**10b** Taxable amount (see page 24).	10b
11a	Total pensions and annuities.	11a	**11b** Taxable amount (see page 24).	11b
12	Unemployment compensation (insurance) from Form(s) 1099-G.		12	
13a	Social security benefits.	13a	**13b** Taxable amount (see page 27).	13b
14	Add lines 7 through 13b (far right column). This is your **total income.**		▶ 14	13,540

Step 5 Figure your adjusted gross income

15a	Your IRA deduction from applicable worksheet.	15a		
b	Spouse's IRA deduction from applicable worksheet. **Note:** *Rules for IRAs begin on page 29.*	15b		
c	Add lines 15a and 15b. These are your **total adjustments.**		15c	
16	Subtract line 15c from line 14. This is your **adjusted gross income.** (If less than $20,264, see "Earned income credit" on page 39.)		▶ 16	13,540

Exhibit P-2

1990 Form 1040A Page 2

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Step 6

Figure your standard deduction, exemption amount, and taxable income

17 Enter the amount from line 16. 17 13,540

18a Check if: ☐ You were 65 or older ☐ Blind ☐ Spouse was 65 or older ☐ Blind } Enter number of boxes checked ▶ 18a ☐

b If someone else (such as your parent) can claim you as a dependent, check here ▶ 18b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 33 and check here ▶ 18c ☐

19 **Enter your standard deduction. See page 34 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 19 5,450

20 Subtract line 19 from line 17. (If line 19 is more than line 17, enter -0-.) 20 8,090

21 Multiply $2,050 by the total number of exemptions claimed on line 6e. 21 6,150

22 Subtract line 21 from line 20. (If line 21 is more than line 20, enter -0-.) This is your **taxable income**. ▶ 22 1,940

Step 7

Figure your tax, credits, and payments

(If you want IRS to figure your tax, see page 35.)

23 Find the tax on the amount on line 22. Check if from: ☒ Tax Table (pages 48–53) or ☐ Form 8615 (see page 36) 23 291

24a Credit for child and dependent care expenses. Complete and attach Schedule 2. 24a

b Credit for the elderly or the disabled. Complete and attach Schedule 3. 24b

c Add lines 24a and 24b. These are your **total credits**. 24c

25 Subtract line 24c from line 23. (If line 24c is more than line 23, enter -0-.) 25 291

26 Advance earned income credit payments from Form W-2. 26

27 Add lines 25 and 26. This is your **total tax**. ▶ 27 291

28a Total Federal income tax withheld. (If any is from Form(s) 1099, check here ▶ ☐ .) 28a 450

b 1990 estimated tax payments and amount applied from 1989 return. 28b

c **Earned income credit.** See page 39 to find out if you can take this credit. No 28c

d Add lines 28a, 28b, and 28c. These are your **total payments**. ▶ 28d 450

Step 8

Figure your refund or amount you owe

Attach check or money order on top of Form(s) W-2, etc. on page 1.

29 If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you **overpaid**. 29 159

30 Amount of line 29 you want **refunded to you**. 30 159

31 Amount of line 29 you want **applied to your 1991 estimated tax**. 31

32 If line 27 is more than line 28d, subtract line 28d from line 27. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, social security number, address, daytime phone number, and "1990 Form 1040A" on it. 32

33 Estimated tax penalty. (see page 43). 33

Step 9

Sign your return

Keep a copy of this return for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature ▶ Michael Adams	Date 4-15-91	Your occupation U.S. Army Active Duty	
Spouse's signature (if joint return, BOTH must sign) ▶ Frieda Adams	Date 4-15-91	Spouse's occupation Housewife	

Paid preparer's use only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶ VITA I		E.I. No.	
		ZIP code	

Exhibit P-3

Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return** **1990** PROOF COPY

For the year Jan.–Dec. 31, 1990, or other tax year beginning , 1990, ending , 19 OMB No. 1545-0074

Label (See Instructions on page 8.) Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: MARGARET A. Last name: WILLIAMS
Your social security number: 271 00 6543
If a joint return, spouse's first name and initial: Last name:
Spouse's social security number:
Home address (number and street). (If you have a P.O. box, see page 9.): 3219 33RD AVE Apt. no.:
City, town or post office, state and ZIP code. (If you have a foreign address, see page 9.): HYATTSVILLE, MD 87145

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign (See page 9.)
Do you want $1 to go to this fund? X Yes No
If joint return, does your spouse want $1 to go to this fund? Yes No
Note: Checking "Yes" will not change your tax or reduce your refund.

Filing Status Check only one box.
1 X Single. (See page 9 to find out if you can file as head of household.)
2 Married filing joint return (even if only one had income)
3 Married filing separate return. Enter spouse's social security no. above and full name here. ▶
4 Head of household (with qualifying person). (See page 9.) If the qualifying person is your child but not your dependent, enter this child's name here. ▶
5 Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 9.)

Exemptions (See Instructions on page 10.)
6a X **Yourself** If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**
No. of boxes checked on 6a and 6b: 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1990

If more than 6 dependents, see Instructions on page 11.

No. of your children on 6c who:
- lived with you
- didn't live with you due to divorce or separation (see page 11)

No. of other dependents on 6c
Add numbers entered on lines above ☐

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Income Attach Copy B of your Forms W-2, W-2G, and W-2P here. If you do not have a W-2, see page 8. Attach check or money order on top of any Forms W-2, W-2G, and W-2P.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	25000 —
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	175 —
b	**Tax-exempt** interest income (see page 13). DON'T include on line 8a [8b]		
9	Dividend income *(also attach Schedule B if over $400)*	9	
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 14	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) (attach Schedule D)	13	
14	Capital gain distributions not reported on line 13 (see page 14)	14	
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions [16a] 16b Taxable amount (see page 14)	16b	
17a	Total pensions and annuities [17a] 17b Taxable amount (see page 14)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 16)	20	
21a	Social security benefits [21a] 21b Taxable amount (see page 16)	21b	
22	Other income (list type and amount—see page 16)	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	25,175 —

Adjustments to Income (See Instructions on page 16.)

24a	Your IRA deduction, from applicable worksheet on page 17 or 18	24a		
b	Spouse's IRA deduction, from applicable worksheet on page 17 or 18	24b		
25	Deduction for self-employment tax, from worksheet on page 18	25		
26	Self-employed health insurance deduction, from worksheet on page 18	26		
27	Keogh retirement plan and self-employed SEP deduction	27		
28	Penalty on early withdrawal of savings	28		
29	Alimony paid. Recipient's SSN ▶	29		
30	Add lines 24a through 29. These are your **total adjustments** ▶		30	—0—

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this amount is less than $20,264 and a child lived with you, see page 23 to find out if you can claim the "Earned Income Credit" on line 57* ▶	31	25,175 —

Exhibit P-4

PROOF COPY

Form 1040 (1990) — Page 2

	32	Amount from line 31 (adjusted gross income)		32	25175 —
Tax Computation If you want IRS to figure your tax, see Instructions on page 19.	33a	Check if: ☐ You were 65 or older ☐ Blind; ☐ Spouse was 65 or older ☐ Blind. Add the number of boxes checked and enter the total here ▶	33a		
	b	If your parent (or someone else) can claim you as a dependent, check here ▶	33b ☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 19 and check here ▶	33c ☐		
	34	Enter the larger of: • Your **standard deduction** (from applicable chart (or worksheet) on page 20), **OR** • Your **itemized deductions** (from Schedule A, line 27). If you itemize, attach Schedule A and check here ▶ ☒		34	8320 —
	35	Subtract line 34 from line 32		35	16855 —
	36	Multiply $2,050 by the total number of exemptions claimed on line 6e		36	2050 —
	37	**Taxable income.** Subtract line 36 from line 35. (If line 36 is more than line 35, enter -0-.)		37	14805 —
	38	Enter tax. Check if from: a ☐ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615 (see page 21) (If any is from Form(s) 8814, enter that amount here ▶ _____.)		38	2224 —
	39	Additional taxes (see page 21). Check if from: a ☐ Form 4970 b ☐ Form 4972		39	
	40	Add lines 38 and 39 ▶		40	2224 —
Credits (See Instructions on page 21.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41		
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42		
	43	Foreign tax credit *(attach Form 1116)*	43		
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) _____	44		
	45	Credit for prior year minimum tax (attach Form 8801)	45		
	46	Add lines 41 through 45		46	
	47	Subtract line 46 from line 40. (If line 46 is more than line 40, enter -0-.) ▶		47	2224 —
Other Taxes	48	Self-employment tax *(attach Schedule SE)*		48	
	49	Alternative minimum tax *(attach Form 6251)*		49	
	50	Recapture taxes (see page 22). Check if from: a ☐ Form 4255 b ☐ Form 8611		50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*		51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*		52	
	53	Advance earned income credit payments, from Form W-2		53	
	54	Add lines 47 through 53. This is your **total tax** ▶		54	2224 —
Payments Attach Forms W-2, W-2G, and W-2P to front.	55	Federal income tax withheld (**If any is from Form(s) 1099, check** ▶ ☐)	55 2450 —		
	56	1990 estimated tax payments and amount applied from 1989 return	56		
	57	**Earned income credit** (see page 23)	57		
	58	Amount paid with Form 4868 (extension request)	58		
	59	Excess social security tax and RRTA tax withheld (see page 24)	59		
	60	Credit for Federal tax on fuels *(attach Form 4136)*	60		
	61	Regulated investment company credit *(attach Form 2439)*	61		
	62	Add lines 55 through 61. These are your **total payments** ▶		62	2450 —
Refund or Amount You Owe	63	If line 62 is more than line 54, enter amount **OVERPAID** ▶		63	226 —
	64	Amount of line 63 to be **REFUNDED TO YOU** ▶		64	226 —
	65	Amount of line 63 to be **APPLIED TO YOUR 1991 ESTIMATED TAX** ▶	65		
	66	If line 54 is more than line 62, enter AMOUNT YOU OWE. Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, social security number, address, daytime phone number, and "1990 Form 1040" on it		66	
	67	Estimated tax penalty (see page 25)	67		

Sign Here (Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation
Margaret A. Williams	4-15-91	U.S. Air Force-Active Duty
Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☐	Preparer's social security no.
VITA-T			
Firm's name (or yours if self-employed) and address		E.I. No.	
		ZIP code	

Exhibit P-5

SCHEDULES A&B (Form 1040)

Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

► **Attach to Form 1040.** ► **See Instructions for Schedules A and B (Form 1040).**

OMB No. 1545-0074

1990

Attachment Sequence No. 07

Name(s) shown on Form 1040: MARGARET A. WILLIAMS

Your social security number: 271 00 6543

Medical and Dental Expenses		**Caution:** *Do not include expenses reimbursed or paid by others.*				
	1	Medical and dental expenses. (See page 27 of the Instructions.)	1			
	2	Enter amount from Form 1040, line 32. 2				
	3	Multiply the amount on line 2 by 7.5% (.075). Enter the result	3			
	4	Subtract line 3 from line 1. Enter the result. If less than zero, enter -0- ►			4	
Taxes You Paid	5	State and local income taxes	5			
	6	Real estate taxes	6	800	-	
(See Instructions on page 27.)	7	Other taxes. (List—include personal property taxes.) ►	7			
	8	Add the amounts on lines 5 through 7. Enter the total ►			8	800 -
Interest You Paid	9a	Deductible home mortgage interest paid to financial institutions and reported to you on Form 1098. Report deductible points on line 10	9a	4000	-	
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ►	9b			
		PROOF COPY				
(See Instructions on page 27.)	10	Deductible points. (See Instructions for special rules.)	10			
	11	Deductible investment interest (attach Form 4952 if required). (See page 28.)	11			
	12a	Personal interest you paid. (See page 28.) 12a				
	b	Multiply the amount on line 12a by 10% (.10). Enter the result	12b			
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total ►			13	4000 -
Gifts to Charity		**Caution:** *If you made a charitable contribution and received a benefit in return, see page 29 of the Instructions.*				
(See instructions on page 29.)	14	Contributions by cash or check	14	500	-	
	15	Other than cash or check. (You **MUST** attach Form 8283 if over $500.)	15			
	16	Carryover from prior year	16			
	17	Add the amounts on lines 14 through 16. Enter the total ►			17	500 -
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 29 of the Instructions.) ►			18	
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 30 of the Instructions.) ►			19	3,020 -
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ►	20			
	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ►	21			
(See Instructions on page 30 for expenses to deduct here.)	22	Add the amounts on lines 20 and 21. Enter the total	22			
	23	Enter amount from Form 1040, line 32. 23				
	24	Multiply the amount on line 23 by 2% (.02). Enter the result	24			
	25	Subtract line 24 from line 22. Enter the result. If less than zero, enter -0-			25	
Other Miscellaneous Deductions	26	Other (from list on page 30 of Instructions). List type and amount ►			26	
Total Itemized Deductions	27	Add the amounts on lines 4, 8, 13, 17, 18, 19, 25, and 26. Enter the total here. Then enter on Form 1040, line 34, the LARGER of this total or your standard deduction from page 20 of the Instructions ►			27	8,320 -

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule A (Form 1040) 1990**

Exhibit P-6

Form **3903**

Department of the Treasury
Internal Revenue Service

Moving Expenses

- Attach to Form 1040.
- See separate instructions.

OMB No. 1545-0062

1990

Attachment Sequence No. **62**

Name(s) shown on Form 1040: MARGARET A. WILLIAMS

Your social security number: 271 09 6543

1	Enter the number of miles from your **old** home to your **new** workplace	1 735
2	Enter the number of miles from your **old** home to your **old** workplace	2 37
3	Subtract line **2** from line **1**. Enter the result (but not less than zero)	3 698

If line **3** is 35 or more miles, complete the rest of this form. If line 3 is less than 35 miles, you may not deduct your moving expenses. This rule does not apply to members of the armed forces.

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Part I Moving Expenses

Section A.— Transportation of Household Goods

4 Transportation and storage for household goods and personal effects 4

Section B.— Expenses of Moving From Old To New Home

5 Travel and lodging **not** including meals 5 50

6 Total meals 6 25

7 Multiply line 6 by 80% (.80) 7 20

8 Add lines 5 and 7 . . . . . 8 70

Section C.— Pre-move Househunting Expenses and Temporary Quarters (for any 30 days in a row after getting your job)

9 Pre-move travel and lodging **not** including meals 9 250

10 Temporary quarters expenses **not** including meals 10 150

11 Total meal expenses for both pre-move househunting and temporary quarters 11 125

12 Multiply line 11 by 80% (.80) 12 100

13 Add lines 9, 10, and 12 . . . . . 13 500

Section D.— Qualified Real Estate Expenses

14 Expenses of (check one): a ☐ selling or exchanging your old home; or b ☐ if renting, settling an unexpired lease . . . 14 2450

15 Expenses of (check one): a ☐ buying your new home, or b ☐ if renting, getting a new lease 15

Part II Dollar Limits

16 Enter the amount from line 13 . . . . . 16 500

17 Enter the **smaller** of line 16 or $1,500 ($750 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990) 17 500

18 Add lines 14, 15, and 17 . . . . . 18 2950

19 Enter the **smaller** of line 18 or $3,000 ($1,500 if married filing a separate return, and at the end of 1990 you lived with your spouse who also started work during 1990) 19 2950

20 Add lines 4, 8, and 19. This is your moving expense deduction. **Enter here and on Schedule A (Form 1040), line 19.** (**Note:** *Any payments your employer made for any part of your move (including the value of any services furnished in kind) should be included on Form W-2. Report that amount on* **Form 1040, line 7.** *See* ***Reimbursements*** *in the instructions.*) 20 3020

For Paperwork Reduction Act Notice, see separate instructions. Form **3903** (1990)

Exhibit P-7

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

► See Separate Instructions.
► Please print or type.

OMB No. 1545-0072

1990

Attachment Sequence No. 20

Your first name and initial (If joint, also give spouse's name and initial.)	Last name	Your social security number
MARGARET A.	WILLIAMS	271 00 6543

Fill in Your Address Only If You Are Filing This Form by Itself and Not with Your Tax Return

Present address (no., street, and apt. no., rural route, or P.O. box no. if mail not delivered to street address) — Spouse's social security number

City, town or post office, state, and ZIP code

Part I General Information

1a	Date your former main home was sold (month, day, year) ►	6 / 6 / 90
b	Enter the face amount of any mortgage, note (e.g., second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale (see Instructions) ►	$ —
2	Have you bought or built a new main home?	[X] Yes [ ] No
3	Is or was any part of either main home rented out or used for business? (If "Yes," see Instructions.)	[ ] Yes [X] No

Part II Gain on Sale *(Do not include amounts you deduct as moving expenses.)*

4	Selling price of home. (Do not include personal property items that you sold with your home.)	4	52,000 -
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	-0-
6	Amount realized. Subtract line 5 from line 4	6	52,000 -
7	Basis of home sold. (See Instructions.)	7	46,000 -
8a	**Gain on Sale.** Subtract line 7 from line 6	8a	6,000 -

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- If zero or less, stop here and attach the form to your return.

b If you haven't replaced your home, do you plan to do so within the replacement period (see Instructions)? (If "Yes," stop here, and see Instructions for additional filing requirements.) [ ] Yes [X] No

Part III One-Time Exclusion of Gain for People Age 55 or Older *(If you are not taking the exclusion, go to Part IV now.)*

9a	Were you 55 or older on date of sale?	[ ] Yes [ ] No
b	Was your spouse 55 or older on date of sale? (If both lines 9a and 9b are "No," go to Part IV now.)	[ ] Yes [ ] No
c	Did at least one spouse who answered "Yes" to line 9a or 9b own and use the property as their main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale? (If "No," go to Part IV now.)	[ ] Yes [ ] No
d	**If line 9c is "Yes," do you elect to take the one-time exclusion?** *(If "No," go to Part IV now.)*	[ ] Yes [ ] No
e	At time of sale, who owned the home?	[ ] You [ ] Your spouse [ ] Both of you
f	Social security number of spouse at time of sale, if you had a different spouse from the one above at time of sale. (Enter "None" if you were not married at time of sale.) ►	
g	**Exclusion.** Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return)	9g

Part IV Adjusted Sales Price, Taxable Gain and Adjusted Basis of New Home

10	If line 9g is blank, enter the amount from line 8a. Otherwise, subtract line 9g from line 8a.	10	6,000 -
	• If zero, stop here and attach the form to your return.		
	• If you answered "Yes" on line 2, go to line 11 now.		
	• If you are reporting the sale on the installment method, stop here and see line 1b Instructions.		
	• Otherwise, stop here and enter this amount on Schedule D, line 3 or line 10.		
11	Fixing-up expenses. (See Instructions for time limits.)	11	350
12	**Adjusted Sales Price.** Subtract line 11 from line 6	12	51,650 -
13a	Date you moved into new home (month, day, year) ► 7/20/90 b Cost of new home	13b	68,000 -
14a	Add the amount on line 9g, if any, and the amount on line 13b and enter the result	14a	68,000 -
b	Subtract line 14a from line 12. If zero or less, enter -0-	14b	-0-
c	**Taxable gain.** Enter the smaller of line 10 or line 14b	14c	-0-
	• If zero, do not enter on Schedule D, but go to lines 15 and 16 now and attach to your return.		
	• If you are reporting the sale on the installment method, see line 1b Instructions and go to line 15.		
	• Otherwise, enter this amount on Schedule D, line 3 or line 10 and complete lines 15 and 16.		
15	Postponed gain. Subtract line 14c from line 10	15	6,000 -
16	**Adjusted basis of new home.** Subtract line 15 from line 13b	16	62,000 -

Sign Here Only If You Are Filing This Form by Itself and Not with Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature — Date — Spouse's Signature — Date

► _____ _____ ► _____ _____

(If joint return, both must sign.)

For Paperwork Reduction Act Notice, see separate Instructions. Form **2119** (1990)

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